

# Systematic Review of Funding Policy

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## Systematic Review of Funding Policy Background

- At its October 18, 2007 meeting, the CTB approved a policy entitled *Systematic Review of Funding Policy ("Policy")* that:
  - " ... requires the Chief Financial Officers of VDOT and DRPT to annually certify, within six months of the Commonwealth's fiscal year end close, that construction project allocations no longer needed for execution of the project have been reallocated by the CTB or distributed or reallocated to the locality designated in the original allocation."*
- The Policy also requires VDOT's Inspector General to *"... audit VDOT's certification as part of the annual audit plan."*
- The annual certification transferred from the Chief Financial Officer to the Chief of Planning and Programming when this position was created.

# Objectives of VDOT Inspector General Audit

## Systematic Review of Construction Project Balances Certification

- **Determine whether the annual Certification was adequately supported and completed by the deadline established in the CTB Resolution;**
- **Determine whether reasonable steps were taken to achieve the results contemplated in the CTB Resolution; and**
- **Determine whether allocations identified as no longer required for the execution of projects were timely reallocated or otherwise distributed in accordance with the CTB Resolution.**

# Results of VDOT Inspector General Audit

## Overall Audit Opinion:

- **“Fiscal and Program Management Division staff have undertaken exhaustive and reasonable steps to interpret and apply the provisions of the CTB Resolution.”**
- **“Existing Fiscal/Program Management Division Project Closeout procedures are designed to move allocations from completed projects and note that this process, if functioning as intended, would achieve results similar to those contemplated by the CTB Resolution.”**
- **“The annual Systematic Review currently functions as a compensating control to insure that non-active projects are added to the Project Closeout database.”**
- **“As such, the additional steps taken to complete the annual CTB Resolution Certification may be redundant and/or unnecessary if project closeout process functions as intended and projects are closed out and allocations moved in a timely manner.”**

## Key Steps for Systematic Review

- At the end of each fiscal year, projects are identified that appear to have unused fund allocations
- Review is limited to projects with no expenditures or no expenditures in the past fiscal year
- Reviews are coordinated with responsible divisions and districts to assess project status
- It is determined whether allocations should be retained on the project or if they were available to transfer
- Reallocations (fund transfers) are processed

## Subsequent Actions

- **VDOT Inspector General dissolved replaced by Internal Audit**
- **Planning and Investment Office established in the Districts**
  - **Planning Section**
  - **Programming Section**
  - **Land Use Section**
- **Improved accountability for allocation of funds managed by others (MPOs, localities, special funds)**
- **Issued a Department Memorandum to formalize policies and procedures for the financial management of projects**
- **Developed new automated financial reports for easier project review by PIM Office and Project Managers**

## Current and On-going Actions for Construction Funds Management

- **Allocations and obligations are reviewed and adjusted on an on-going basis, the SYIP is a live database. Such reviews occur many times over the life of a project to include:**
  - **As schedules and estimates are updated over the project development cycle**
  - **During project milestones such as phase authorization, advertisement or award**
  - **When transfers are requested by MPOs, localities, districts and program managers**
  - **At completion of a project phase**
- **Allocations and obligations are reviewed during the annual development of federal strategy**
- **Allocations and obligations are reviewed as part of the quarterly FHWA's Financial Integrity Review and Evaluation Report (FIRE report)**
- **Allocation transfer requests are provided to the CTB monthly for approval if the transfer is greater than 10% of the funds allocated to the donor project. (Less than 10% for information only)**

## VDOT Staff Recommendation

- **Since the Systematic Review policy was approved in 2007, VDOT has formalized the review of project allocations and obligations throughout the life of a project with adjustments made each year as necessary.**
- **Therefore VDOT requests that the Systematic Review policy be rescinded as redundant.**
- **Internal Audit will review projects through the close-out process using a risk profile.**



## DRPT Background

- When DRPT CFO arrived in late 2004, it quickly became apparent that a systematic process to reconcile project balances did not exist.
- Set up an internal control structure to reconcile agency financial assets.
- DRPT began researching historical data and identified \$11.3 million of unobligated project balances that the CTB allocated to DRPT initiatives on April 18, 2007. DRPT implemented a systematic process to reconcile all project balances to the revenues collected by the agency and expenditures made on each project.

## Current Systematic Review Process

- DRPT performs its reconciliation process on a monthly basis and reports the results to CTB each quarter, identifying all unobligated funds by funding source.
- DRPT manages its projects according to department policies that require each project to be systematically reviewed for potential closeout and with controls that include project based budgeting, project end dates that are linked to the financial system expenditure process, automated system reporting of projects with no activity, and mandatory linking in the financial system of project budgets to revenue sources.
- DRPT must annually submit and certify the financial activity of each federal award in Financial Status Reports to both the Federal Transit Administration and the Federal Railroad Administration.

## DRPT Staff Recommendation

- DRPT's Chief Financial Officer reports that unused funds allocated to it are systematically reviewed and reported to the CTB on an annual basis and are reallocated by the CTB. This annual certification is provided by the Chief Financial Officer of DRPT to the CTB each within six months of each year end close.
- DRPT identified the need for a systematic review process prior to the CTB resolution in 2007 and has been performing this process ever since.
- Therefore, DRPT requests that the Systematic Review policy and annual CTB certification be rescinded as redundant.