



Federal Aviation Administration

Memorandum

Date: JUL 21 2006

To: Catherine M. Lang, Acting Associate Administrator for Airports; Dennis E. Roberts, Director, Office of Airport Planning and Programming; and Manager, Barry L. Molar, Airports Financial Assistance Division

From: David Suomi, Manager, Airport Improvement Program Branch

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Subject: Proposed Risk-Based Approach for Oversight of the Airport Improvement Program (AIP) and Standardization of Grant Documentation

Executive Summary

This Memorandum describes a recommended risk-based approach for documentation of Airport Improvement Program (AIP) grant oversight. It responds to the FY 2005 audit of the AIP, which observed a potential increased risk of the misuse of funds during the grant monitoring process. The Grants Management Oversight Working Group (GMO Working Group) made the following recommendations:

- Establish **three levels of risk** (nominal, moderate, and elevated) and the criteria that should be used to assign a risk level to each airport sponsor. The vast majority of sponsors (estimated to be in the range of 95% nationwide) can be categorized as having nominal, or minimal, risk. Only a small percentage of airports (less than 1%) are expected to be an elevated risk.
- Define **minimum grant documentation requirements** for each risk category. Regions are encouraged to provide additional grant oversight documentation when they deem it to be appropriate.
- Describe **an implementation procedure for this policy**, including training and appropriate policy revisions (i.e. revisions to FAA Order 5100.38C, *Airport Improvement Program Handbook*).
- Outline **a standardized project folder organization**, to insure that grant documentation is collected and retained in a consistent and uniform manner nationwide.

This Memorandum focuses on properly documenting how Regional Offices (RO) and Airport District Offices (ADO) provide appropriate grant oversight to airport sponsors. It does not, nor is it intended to, dictate actual oversight procedures, which are best defined at the regional level.

Background

In its FY 2005 audit of the Airport Improvement Program (AIP), KPMG identified the potential for misuse of AIP funds within the oversight and monitoring phase of the grant management process. The auditors concluded that FAA Airports' lack of an "effective, risk-based approach to oversee and monitor sponsor activities" increases the risk that program funds could be misused, wasted or used fraudulently by non-FAA entities (see FY 2005 Audit Notification of Findings and Recommendations (NFR) Numbers 05-M-04, -05 and -06).

KPMG noted a lack of standardization across FAA regions in the application of AIP policies and procedures and inconsistencies in the documentation of grant oversight and monitoring. Similarly, the auditors found a lack of standardization across the regions regarding the appropriate documentation needed to monitor grant expenditures. KPMG also observed that the FAA's increasing reliance on airport sponsors to provide project oversight (self-certification), including inspection and fiscal adherence, has resulted in the inability of the FAA to directly manage potential risks of inappropriate or misuse of AIP funds. The auditors attributed these program deficiencies to a shortage of program resources at the regional level, vague or incomplete financial documentation requirements, and failure to implement or consistently follow established policies and procedures.

In response to these audit findings, the Office of Airports agreed to develop and implement an appropriate risk-based approach to minimize the potential for misuse of AIP funds during the grant oversight and monitoring phase. To assist in this endeavor, APP-520 formed an ad hoc GMO Working Group comprised of FAA Airports headquarters and regional personnel and a representative from AFM-600, Office of Financial Management - Internal Controls Division. The GMO Working Group was tasked to review alternative approaches to establishing a risk-based approach to grant management and to make recommendations for implementation, including funding if appropriate, to Office of Airports executive management no later than March 1, 2006.

The working group was charged with establishing oversight and monitoring procedures based on an airport sponsor's level of potential risk (low, medium or high) and determining the level of required documentation and oversight for each risk rating. In developing such procedures, the auditors recommended the working group consider the following factors:

- The size of the sponsor's operation and its potential impact on the financial integrity of the program (including the cumulative materiality of small airport grants).

- The sponsor's affiliation with the local municipality and whether it is a separate authority.
- History of and adherence to, the FAA's grants policies and procedures (such as the timeliness of SF-271 or equivalent and other required documents).
- Results of single audits and other compliance reviews.

In addition, the working group also was asked to consider modifying FAA's electronic grant management system, System of Airports Reporting (SOAR), to automate some elements of AIP project management; statistical sampling; magnitude of AIP funds involved with any particular sponsor; an assessment of the technical, administrative and financial skills of the individual sponsor; role and resources of the State government, as appropriate; and FAA observations of sponsor and/or sponsor's representative during project planning and pre-procurement phase, etc.

As noted, APP-520 convened the GMO Working Group, and oversaw the group's effort to research and analyze grant oversight and monitoring alternatives. The working group has completed this task and offers the following recommendations for a risk-based approach to AIP project management and standardization of AIP oversight and monitoring procedures:

Definition of Risk Categories

The working group proposes a three-tiered ranking system to identify the risk of each airport sponsor and subsequently the level of oversight and documentation needed. Each airport sponsor will be assigned one of these three risk rankings – Nominal, Moderate or Elevated – based on specific criteria, including past performance, size of annual grant and other considerations. Each risk classification requires certain level of grant documentation and oversight that becomes more demanding as the airport sponsor advances from one risk classification to the next.

The working group envisions this risk-based model as an internal FAA tool used by regional personnel only to determine the appropriate level of sponsor documentation and oversight. It is not to be used as an official FAA ranking by the financial industry or aviation industry to determine the financial viability of an airport sponsor. Further, the risk-based model would not be used to rank sponsors participating in the State Block Grant Program. In this situation, the FAA transfers responsibility for project oversight to the State.

Nominal Risk: The Nominal Risk classification is the baseline level for airport sponsors. A sponsor within this classification is assumed to pose minimal risk of improper use of grant funds. All airport sponsors will be initially assigned this risk rating. It is anticipated most airport sponsors (the GMO Working Group estimates up to 95% of sponsors nationally) will remain in this category. The GMO Working Group assumes a majority of sponsors administer their grants in good faith and pursuant to the requirements associated with the sponsor's acceptance of an AIP grant. Accordingly,

limited grant oversight and documentation is required and all preexisting airport sponsors will be initially assigned this risk rating.

Moderate Risk: The next level of risk is the Moderate Risk rating. The Moderate Risk rating would apply to an airport sponsor that either (1) grant project funding amount that exceeds \$20 million per grant (excluding state block grants) or (2) has a documented record of deviation from appropriate grant management processes and documentation, including:

1. A finding of fraud, waste or abuse;
2. Repeated grant draw down irregularities;
3. Single audit findings requiring payments to the Federal government in excess of \$100,000;
4. Previous findings of noncompliance with grant assurances;
5. Criminal proceedings;
6. Lack of conformance to plans and specifications;
7. A first-time airport sponsor; and
8. Other considerations as deemed appropriate by the project manager.

This list is not intended to be restrictive but merely illustrative of the types of deviation from grant procedures that, if confirmed by the project manager, may result in an airport sponsor being ranked as a Moderate Risk.

The project manager may restore the sponsor to the Nominal Risk level at any time the sponsor takes corrective action to remedy the identified deviation from appropriate grant processes or documentation. Changes to a sponsor's risk rating must be documented as outlined below.

Elevated Risk: The third risk rating, Elevated Risk, requires the most extensive level of grant oversight and documentation. An airport sponsor would be elevated to an Elevated Risk rating for any blatant or reckless violation of a grant agreement or a repeat of any of the conditions that elevated the sponsor to the moderate level. An AIP project manager must coordinate with the regional management prior to elevating a sponsor to the Elevated Risk ranking.

The project manager, in consultation with the regional office, may restore the sponsor to the Moderate Risk level at anytime in the grant process if the sponsor is in compliance with its plan of correction. Changes to a sponsor's risk rating must be documented in the project file.

Oversight and Documentation Requirements

The level of project oversight for sponsors shall be established by the Regional or Airport District Office, based on the assigned risk level, regional policy, and other factors. The documentation guidelines presented herein are not intended to define the *procedures* by

which a RO or ADO monitor grants; rather, it is intended to clearly establish minimum documentation associated with each risk level.

While procedures should be established on the regional level, the working group recommends that if a RO determines an airports sponsor's risk rating should be raised to Elevated level, it may withhold discretionary funds requested by the sponsor.

Finally, the working group stresses that the documentation requirements set forth herein are minimal requirements. The working group encourages each RO and ADO to supplement this documentation whenever feasible and appropriate.

Sponsor Risk Level Documentation: An airport sponsor's risk level, and any changes in that level, should be properly documented and filed. The Working Group will recommend a uniform filing or record retention system to assist auditors and program evaluators find documentation.

Nominal Risk Documentation: For airport sponsors within the Nominal Risk classification, there will be two possible levels of documentation.

- Sponsors of grants totaling more than \$300,000 in a given year will be subject to grant documentation and oversight requirements specified in FAA Order 5100.38C, Airport Improvement Program Handbook. Attachment A identifies the minimal grant documentation required by the Handbook. It does not imply that performance of the items listed is all the AIP administrative responsibilities minimally necessary and required by Order 5100.38C.
- The working group acknowledges the significant level of resources necessary to administer the currently required grant documentation and oversight requirements for the smallest grants that represent a minimal level of risk. Accordingly, the working group recommends a minimal level of grant documentation for AIP grants under \$300,000 in a given year that do not involve land acquisition or development planning. Generally, such grants are straightforward grants that pose minimal opportunity for waste, fraud or abuse. The working group recommends that grant documentation for these grants be limited to:
 1. SF 424 and attachments;
 2. Grant agreement;
 3. Engineering agreement;
 4. Closeout report;
 5. Final SF 271 or equivalent for both sponsors authorized electronic draw downs through the Electronic Clearing House Operation (web ECHO) System and those requesting manual payments;
 6. Final invoice, except for invoices under \$1,000 per project item;
 7. For construction projects, pre- and post-construction photographs;
 8. For equipment projects, photographs if purchased equipment, with Vehicle number and delivery date;

9. Environmental documentation; and
10. All sponsor and engineer certifications.

Moderate Risk Documentation: In addition to the level of grant documentation and oversight required under the nominal risk rating, the working group recommends that for sponsors ranked as a moderate risk, AIP project managers review the project work scope and engineering fees and require the airport sponsor to submit:

1. Invoices or listing of invoices with each payment request for architectural/engineering services, equipment and development grants;
2. Weekly construction progress reports;
3. Invoice(s) or listing of invoices for last payment request;
4. Construction test results;
5. Project change orders; and
6. Any additional documentation deemed necessary by the project manager for a particular sponsor.

In addition, project managers should document in the project folder that the airport sponsor has been assigned a Moderate Risk ranking, to highlight this status.

Further, the working group recommends that sponsors rated as a Moderate Risk that are receiving electronic draw downs through the web ECHO system be required to submit on a quarterly basis a SF 271 or equivalent form.

Elevated Risk Documentation: In addition to the level of grant documentation and oversight required under the Moderate Risk rating, the working group recommends that sponsors ranked as an Elevated Risk be required to submit a *Risk Reduction Plan of Corrective Action* that addresses their program deficiencies and establishes correction dates for each deficiency. In addition to this plan, the working group recommends the project manager:

1. Revoke the sponsor's Letter of Credit that the FAA uses to authorize a sponsor to draw funds from the U.S. Treasury for payment directly to the sponsor's bank when needed for reimbursement of allowable project costs incurred.
2. Require project invoices and an SF 271 or equivalent with each payment request.

Finally, project managers should document in the project folder that the airport sponsor has been assigned an Elevated Risk ranking, to highlight this status.

Implementation Plan

Upon executive management approval and regional review of the risk-based model proposed above, the GMO Working Group recommends issuing internal policy implementing the risk-based model, revising FAA Order 5100.38C to clarify grant documentation requirements, training regional personnel to ensure consistent application of the risk-based model and modifying the System of Airports Reporting (SOAR) to enhance project and financial reporting.

Training: The NFR working group recommends that APP-1 issue a memo directing regional managers to adopt the risk-based grant management model to comply with the implementation schedule in the NFR 05-M-04. The recommendations contained in the memorandum were adopted by the Office of Airports Executive Management by June 1, 2006. This directive also would specify training for regional personnel involved in AIP project management and funds control. This training was already initiated at the Airports Financial Assistance Division Recurrent Training class, April 24-28, 2006. (Training on the implementation of the risk-based model was held at the Center for Management and Executive Leadership in April.) For personnel unable to attend this training, the working group recommends that APP-520 electronically distribute training materials and discuss these materials during telecon briefings.

Policy Revisions: As noted above, the working group recommends that APP-520 revise FAA Order 5100.38C to include a new appendix that provides project managers with a checklist of all document requirements found throughout the Order 5100.38C and revise Paragraph 1040 to reference this new appendix (see Attachment A). This new checklist will help ensure the regional personnel adhere consistently to all AIP project documentation requirements.

The working group also has developed a new sponsor risk level assignment form to be included in project folders of airport sponsors that are rank as a Moderate or Elevated risk level (see Attachment B).

Until FAA Order 5100.38C is revised, implementation of the risk based model and recommendations contained in this memorandum will be accomplished through the use of Program Guidance Letters (PGL's).

Standardization of Project Documentation

To further reinforce the need for standardized AIP project folders, the working group also recommends that APP-520 establish criteria for standardized AIP project folder contents and organization and direct the regional offices to revise their filing systems using this new criteria for all grants issued after October 1, 2006. In addition to assuring that certain required documentation is collected and retained in a consistent and uniform manner across regions, the standardization will also facilitate review by auditors and regional evaluators and decrease the start up time for employees that relocate to another office.

For the most part, the working group recommends that existing document requirements contain in FAA Order 5100.38C remain unchanged. However, the following revisions to the order are needed to incorporate the risk-base model into the grant management procedures and ensure uniformity in grant documentation:

- Clarify consolidated documentation requirements for AIP grant projects that total less than \$300,000 and do not involve land acquisition, or development planning. Paragraph 1040 should be revised to state that documentation for such grants should be limited to the following:
 1. SF 424 and attachments;
 2. Grant agreement;
 3. Engineering agreement;
 4. Closeout report;
 5. Final SF 271 or equivalent for both sponsors authorized electronic draw downs through the Electronic Clearing House Operation (web ECHO) System and those requesting manual payments;
 6. Final invoice, except for invoices under \$1,000 per project item;
 7. For construction projects, pre- and post-construction photographs;
 8. For equipment projects, photographs if purchased equipment, with Vehicle number and delivery date;
 9. Environmental documentation; and
 10. All sponsor and engineer certifications.
- Revise Paragraph 1314 to substitute references to SF 272 with SF 271 and delete the blank copy of SF 272 contained in Appendix 18. The working group believes the SF 272 is not suited for the current method of grant payment used by the Office of Airports and the financial data collected on this form is irrelevant. In addition, the requirement to submit final financial data only on SF 271 will foster uniformity in financial documentation.
- Revise Appendix 8. Project Evaluation Review and Development Analysis Checklist (FAA Form 5100-109) to include a new element requiring the project manager to identify whether the sponsor has been assigned a risk rating other than the Nominal Risk.

Centralized Data Management

The GMO Working Group recommends several changes to SOAR to improve the standardization of grant project management.

- First, the working group recommends analyzing the potential for the development of a new SOAR module to automate the collection of grant and financial data from the sponsor. This working group should consider a web-based module allowing the sponsor to submit electronically required documentation directly into SOAR, including a SF 271 or equivalent, construction reports, invoices, final payment

documentation, and digital photos of completed work or purchased equipment. In addition to streamlining the grant documentation process, this modification will compliment the efforts to automate the AIP grant application process that are ongoing with the Federal grant website, Grants.gov.

- Second, the working group supports ongoing efforts to modify SOAR to allow the system to communicate directly with the FAA’s financial system, DELPHI. Currently, payment data is manually entered into DELPHI and there is no automated reconciliation between the two systems. The working group believes a direct feed between the two systems would eliminate the potential for errors that may occur with the manual processing of financial data and provide reliable and timely financial information. This recommendation must be coordinated with and approved by the FAA Budget Office.
- Third, minor modifications to the existing SOAR grant module would alert project managers to circumstances that warrant a change to sponsor’s risk rating. The working group recommends that the SOAR grant module be modified to track excessive draw downs or project amounts that vary more than 10 percent from the project budget submitted with the grant application. These financial activities may alert a project manager that a project’s risk ranking may need reevaluation.
- Fourth and last, the working group recommends improved reporting capabilities to more easily extract useful data from SOAR. This will substantially reduce time currently being spent developing stand alone ad-hoc reports and supplemental reports required for a more in-depth analysis of regional data.

Concur: _____ Date _____

Dennis Roberts
APP-1

Concur: _____ Date _____

Catherine M. Lang
Acting ARP-1

A. Documentation* Required for AIP-funded Construction & Equipment Grants, per FAA Order 5100.38C, Chapter 5:

Section 1 – Preliminary Documentation / Project Formulation

- Project Evaluation Report and Development Analysis (Paragraph 1040)
- Environmental Determination (Paragraph 1040)
- Current Airport Master Record, FAA Form 5010-1 (Paragraph 1040)
- Notice of Allocation (Paragraph 1043)
- Other preliminary or significant correspondence

Section 2 - Grant Agreement / Amendments

- Grant Application, SF 424 and attachments (Paragraph 1040)
- Executed Grant Agreement/Amendment, FAA Form 5100-37 (Paragraph 1130 & 1140)
- Other grant related correspondence

Section 3 - Financial

- FAA Form 5100-107 (or electronic equivalent) (Paragraph 1040)
- Grant Payment Forms/Reports (SF 270, 271 or equivalent) (Paragraph 1301-1304)
- Any final payment documentation

Section 4 – Supporting Documentation

- Bid Tabulation and Engineer's Estimate, (Paragraph 1052)
- Appendix 25, Sponsor Certifications Sponsor:
 - Selection of Consultants
 - Sponsor Certification for Project Plans and Specifications
 - Sponsor Certification for Equipment / Construction Contracts
 - Sponsor Certification for Project Final Acceptance
 - Sponsor Certification for Drug Free Workplace
 - Sponsor Certification for Real Property Acquisition
- Sponsor Quarterly Performance Report (Paragraph 1221(c))
- Change Order/Supplemental Agreement Approval Letter, if results in grant amendment (Paragraph 940 (c))

**A. Documentation* Required for AIP-funded Construction & Equipment Grants
(continued)**

- Summary of Change Orders/Project Costs (Paragraph 1220 (f)). If final inspection is waived, there must be documented rationale (Appendix 10 or equivalent).
- FAA's Final Cost Review/Final Project Report (Paragraph 1315)
- Construction Safety Plan (Paragraph 1022 (e))
- For paving project over \$250,000, Construction Management Program (Paragraph 1221 (a))
- For paving projects over \$250,000, Summary of Interim Test Results in lieu of periodic inspections (Paragraph 1221 (a))

* Equivalent or regionally developed or electronically produced documents may be substituted.

B. Documentation* Required for AIP-funded Land Acquisition Grants, per FAA Order 5100.38C, Chapter 7:

Section 1 - Preliminary Documentation / Project Formulation

- Project Evaluation Report and Development Analysis (Paragraph 1040)
- Environmental Determination (Paragraph 1040)
- Current Airport Master Record, FAA Form 5010-1 (Paragraph 1040)
- Notice of Allocation (Paragraph 1043)
- Other preliminary or significant correspondence

Section 2 - Grant Agreement / Amendments

- Grant Application, SF 424 and attachments (Paragraph 1040)
- Executed Grant Agreement/Amendment, FAA Form 5100-37 (Paragraph 1130 & 1140)
- Other grant related correspondence

Section 3 – Financial

- FAA Form 5100-107 or electronic equivalent (Paragraph 1040)
- Grant Payment Forms/Reports (SF 270, 271 or equivalent) (Paragraph 1301-1304)
- Any final payment documentation

Section 4 - Supporting Documentation

- Appendix 25, Order 5100.38C, Sponsor Certifications:
 - Sponsor Certification for Selection of Consultants
 - Sponsor Certification for Drug Free Workplace
 - Sponsor Certification for Real Property Acquisition
- FAA's Final Cost Review/Final Project Report (Paragraph 1315)
- Real Property Acquisition Certification of Title Evidence (Paragraph 713 & Appendix 25)
- FAA's Final Cost Review/Final Project Report (Paragraph 1315)

Section 5 - Other

- Sponsor's Uniform Act certification (Paragraph 714)
- Other project related materials

* Equivalent or regionally developed or electronically produced documents may be substituted.

**C. Documentation* Required for AIP-funded Planning Grants, per FAA Order 5100.38C,
Chapter 4:**

Section 1 - Preliminary Documentation / Project Formulation

- Project Evaluation Report and Development Analysis (Paragraph 413 (c))
- Current Airport Master Record, FAA Form 5010-1 (Paragraph 1040)
- Notice of Allocation (Paragraph 1043)

Section 2 - Grant Agreement / Amendments

- Grant Application, SF 424 and attachments (Paragraph 413 (c))
- Executed Grant Agreement/Amendment, FAA Form 5100-37, (Paragraph 1130 & 1140)
- Other grant related correspondence

Section 3 - Financial

- FAA Form 5100-107 or electronic equivalent (Paragraph 413 (c))
- Grant Payment Forms/Reports (SF 270, 271 or equivalent) (Paragraph 1301-1304)
- Any final payment documentation

Section 4 - Supporting Documentation

- Appendix 25, Order 5100.38C, Sponsor Certifications:
 - Sponsor Certification for Selection of Consultants
 - Sponsor Certification for Drug Free Workplace
- Sponsor Quarterly Performance Report (Paragraph 1221 (c))
- FAA's Final Cost Review/Final Project Report (Paragraph 1315)

Section 5 - Progress and Other Reports

- Final planning reports (Paragraph 427)
- Other project related materials

SPONSOR RISK LEVEL ASSIGNMENT FORM

1. AIRPORT NAME:		2. SPONSOR:	
3. GRANT NUMBER	4. DATE:		
5. ASSIGNMENT FACTORS: <i>(Check appropriate box(es) below.)</i>			
<input type="checkbox"/> New Sponsor			
<input type="checkbox"/> New Sponsor Administration or Personnel			
<input type="checkbox"/> Type of Project, Complex, Simple, Equipment or Land Acquisition.			
<input type="checkbox"/> Level of State Aeronautical Department Involvement and Capabilities.			
<input type="checkbox"/> Force Account in the Project.			
<input type="checkbox"/> Size of Project.			
<input type="checkbox"/> Sponsor Past History.			
<input type="checkbox"/> A-133 Single Audits. Has the sponsor had any findings/recommendations as a result of an audit?			
<input type="checkbox"/> Letter of Credit Abuse.			
<input type="checkbox"/> Criminal Investigation			
<input type="checkbox"/> Issue with Revenue Diversion.			
<input type="checkbox"/> Other.			
6. REMARKS: <i>(Required for any box(es) checked above.)</i>			
7. Risk Level Assignment: <input type="checkbox"/> Moderate <input type="checkbox"/> Elevated <i>(ENTER FINDING ON PERADA)</i>			
8. PROJECT MANAGER SIGNATURE:			9. DATE:
10. APPROVING SUPERVISOR'S SIGNATURE <input type="checkbox"/> CONCUR <input type="checkbox"/> NONCONCUR <i>(If nonconcur, provide reason in "REMARKS".)</i>			
11. SIGNATURE:			12. DATE:

G:APP500:NFR Recommendation Memo ver 8 of 7-18-2006
APP520:KBall:77436:skh:5/31/06
APP500/1/ARPx/520