WATKINS | GOVERNMENT SERVICES

November 3, 2025

U.S. Department of Transportation
Pipeline and Hazardous Materials Safety Administration
1200 New Jersey Avenue, SE
Washington, DC 20590

Compliance Review

Watkins Government Services LLC performed a compliance review of the Technical Assistance Grants (TAG) awarded by The United States Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA) to the Pipeline Safety Trust (PST), for federal fiscal years 2022 through 2024, refer to ***Table 1 – List of Federal Awards***. The purpose of the compliance review was to evaluate PST's compliance with federal statutes, regulations, and the terms and conditions of the awards. We reviewed PST's compliance with the TAG program's authorizing statute at 49 U.S.C. § 60130, which prohibits grant funds from being used for lobbying, for direct advocacy for or against a pipeline construction or expansion project, or in direct support of litigation. Our review also included reviewing PST's compliance with 2 CFR Part 200 (*Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards*) and the specific grant conditions and special terms, evaluating relevant financial management systems, internal controls, and procurement practices. In addition, our review included assessing documentation supporting expenditures charged to the awards, testing a sample of transactions to ensure allowability, allocability, and reasonableness, and confirming that required reports were submitted timely and accurately.

Table 1 - List of Federal Awards

Grant Award #	Assistance Listing #	Period of Performance	Award Amount	Expenditures as of 06/30/2025
693JK32240018PTAG	20.710	09/30/2022 – 05/31/2024	$1,000,000.00	$1,000,000.00
693JK32340010PTAG	20.710	09/30/2023 – 09/29/2024	$1,000,000.00	$1,000,000.00
693JK32440013PTAG	20.710	09/30/2024 – 09/29/2025	$1,000,000.00	$278,876.50

Procedures, Observations, and Recommendations

Internal Controls

2 CFR § 200.303 – Internal Controls requires federal grant recipients to establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the recipient is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Specifically, the TAG organic statute at 49 U.S.C. § 60130 prohibits grant funds from being used for lobbying, for direct advocacy for or against a pipeline construction or expansion project, or in direct support of litigation. As part of our review, we obtained and reviewed PST's Financial Policies and Procedures Manual to determine if the procedures

complied with federal regulations. Our review of PST's written procurement procedures found that they are not in compliance with Segregation of Duties requirement as the existing procurement policies and procedures do not require the review and approval of procurement transactions by someone other than the person initiating the procurement.

Based on our review, we also made recommendations in the areas of Payroll Cost Recording, Financial Reporting Segregation of Duties and Recordkeeping, Cash Disbursement Recordkeeping, and Training on TAG Specific Grant Conditions to help ensure that the established policies and procedures are sufficient to provide reasonable assurance that PST complies with Federal statutes, regulations, and the terms and conditions of federal awards.

Allowable Costs and Cost Principles

To determine if PST complied with federal regulations and the terms and conditions of the awards, Watkins selected a sample of expenditures charged to the awards for each applicable period and obtained copies of the relevant supporting documentation. We examined the supporting documentation to determine if the expenditures were allowable under the terms and conditions of the awards, allocated in a clear and reasonable manner, that the expenditures were properly supported, and reviewed and approved by management, and incurred during the period of performance for the awards. .

Payroll Costs

2 CFR §200.430 - Compensation-personal services of the Uniform Guidance requires that charges for salaries and wages be (1) based on records that accurately reflect the work performed; (2) account for an employee's total paid time, including work on both federal and non-federal activities; (3) reasonably reflect the total activity for which the employee is compensated; and (4) reflect "after the fact" statements of the employee's time spent on specific tasks, not estimates or budgets. PST has used two different time reporting systems during the grant audit period. The first reporting system, used for most of the period, was simply a before-the-fact estimate, by person, of time charged to the grant. It did not reflect the actual time spent on the grant or other activities. The initial method was based on Personnel Action Notices, which included the time allocation, accompanied by timecards that were completed with only a reference to total hours worked, including an indication of leave taken.

In May of 2025, PST moved away from using Personnel Action Notices and implemented semi-monthly timecards which provide percentages of time allocated to each program along with an indication of leave hours taken. Both the Personnel Action Notices and timecards are based on percentages and do not reflect the actual hours worked by charge code (i.e. grant, vacation, etc.). Both the Personnel Action Notices and timecards allow for periodic adjustment to the percentage charged to the grant. The Personnel Action Notices used at the beginning of the grant established the allocation of time to grant and non-grant activities and included the employee's name, salary amount, and the action being documented. PST's Business Manager indicated that allocation percentages were collaboratively set by the employee, their supervisor, and the Executive Director, and were regularly reviewed during weekly check-ins and updated as necessary by completing a new Personnel Action Notice. However, the Executive Director and Business Manager noted that there was no documentation to support how the initial allocation percentages were determined or the basis for any changes to the time allocations resulting from weekly check-ins. This is important because PST engages in lobbying, advocacy, and/or litigation activities, which are unallowable under the terms of the award.

Our sample of 40 expenditures included nine payroll allocations. Documentation to support the payroll allocations included Pay Stubs, Timecards, Personnel Action Notices, Payroll Summary Reports, and the allocation worksheet. During our review of the supporting documentation for payroll costs, we noted that during the period when the Personnel Action Notices were used, PST's Timecards did not include an allocation of time worked for each award or program, as the allocation was established through the Personnel Action Notices. To confirm that payroll allocation percentages were reviewed, and updated, when necessary, we obtained copies of both the Personnel Action Notices and Timecards, depending on the methodology in effect, for the personnel selected for testing and found that the allocation percentages were periodically updated in accordance with PST's policies. While the Personnel Action Notices and Timecards were signed and dated by both the employee and their supervisor, and updated as needed, we were unable to review any documentation to support the reasonableness of the allocation percentages used by PST.

We recommend that PST revise their methodology for recording and allocating payroll costs to more clearly reflect the work performed and the total activity for which employees are compensated, including the allocation of time to advocacy, litigation, and lobbying efforts. To remedy PST's noncompliance with the requirements of 2 CFR §200.430 after-the-fact statements, PST should implement a timekeeping system which requires the daily recording of actual time worked for each award, program, or supporting activity. Personnel working on the TAG grant and other activities not allowed in the TAG grant, should maintain timesheets which record the actual time worked daily and provide descriptions of the work performed by award, program, or supporting activity. Timesheets should be signed by the employee and reviewed and approved by a supervisor. Supporting documentation should clearly identify time spent on lobbying, advocacy, and/or litigation activities, which are unallowable and cannot be charged to this award.

Cash Disbursements

PST's established policies and procedures over Cash Disbursements require that all invoices be reviewed for mathematical accuracy, validity, conformity to the budget, and compliance with contract requirements. Payment requests must be prepared for each invoice and include the date, payee, amount, invoice number, description, breakout of the appropriate general ledger account and cost center, the name of the requestor, and a signature to show proper approval of the invoice by the Executive Director or other Board authorized signer. In addition, the Treasurer or other Board officer reviews each credit card statement and the Executive Director's expense reimbursements to ensure the expenditure is related to PST business. Each review is documented by initialing the supporting documentation if reviewed in person, or by email acknowledgement if reviewed electronically.

The documentation provided to support the expenditures tested demonstrated that PST complied with the established policies. However, the documentation provided for three reimbursements to the Executive Director did not initially include the required evidence of review by the Treasurer or board officer. We requested, and were provided with, additional documentation to support the required review by the Treasurer or board officer. To remedy PST's noncompliance with federal record retention requirements, we recommend that all required documentation to support a cash disbursement, including the review and approval of the disbursement, be maintained with the Payment Requests.

Procurement

2 CFR §200.318 – General Procurement Standards requires the recipient of federal awards to maintain and use documented procedures for procurement transactions under a federal award, including for the acquisition of property or services. The documented procurement procedures must be consistent with State, local, and tribal laws and regulations and the standards identified in Procurement Standards 2 CFR §200.317 through §200.327. Except for the instance of noncompliance with segregation of duties noted below, we found that PST's written procurement policies are in compliance with federal standards. Our review of PST's written procedures found that they are not in compliance with Internal Controls, Segregation of Duties principle. PST's policies and procedures do not require the review and approval of procurement transactions by someone other than the person initiating the procurement.

Our sample of 40 expenditures included three transactions that exceeded the established micro-purchase threshold of $10,000. Two of the transactions related to costs associated with the 2023 Conference and were for production services and hotel accommodations. We found that the required quotes and price studies were obtained for these transactions. The third transaction was related to the costs associated with a research study. This procurement was awarded using the Sole Source procurement methodology because the vendor was determined to be the only responsible source capable of performing the required research and the vendor was included in the project narrative and budget justification sections of the funding application. The Justification for the Sole Source award was documented as required, however the justification was not signed and dated, and there was no evidence that the justification was reviewed and approved by management.

We recommend that PST update its procurement policies and procedures to require the written review and approval of all procurement transactions by someone other than the person initiating the procurement, and that all documentation to support the history of the procurement transaction be maintained in accordance with federal document retention requirements.

Reporting

We reviewed PST's compliance with the award reporting requirements. 2 CFR §200.329 – Monitoring and Reporting Program Performance requires PST to submit Mid-Term Progress Reports and Mid-Term Federal Financial Reports (FFRs). The mid-term reports are due within 30 days after the end of the sixth month of the grant period. In addition, PST is required to submit Final Program Progress Reports and Federal Financial Reports, which are due within 90 days after the end of the grant period. We examined the mid-term and final reports for the awards to determine if they were accurately prepared, timely submitted, and adequately supported. We noted that, with two exceptions, the Federal Financial Reports and Program Progress reports were accurately prepared and timely submitted. The exceptions noted included the timely submission of the initial FFR and Program Progress reports for Award 693JK32240018PTAG. The PST Executive Director and Business Manager stated that because there had been no activity on the award and no costs had been charged to the award after the initial six month period, they were not aware of the need to submit the reports. We noted that the FFR's were prepared by either the Business Manager or the Executive Director, however, there was no documentation to support that the reports were reviewed and approved by someone other than the preparer to ensure that the reports were accurately prepared. We recommend that all Federal Financial Reports and Program Progress reports be reviewed and approved by an appropriate person other than the person who prepares the reports, and the supporting documentation, including evidence of the review and approval, be maintained in accordance with federal requirements.

Specific Grant Conditions and Special Terms

Our review also included reviewing PST's website, Regulatory Testimony, and other documentation, to assess whether PST complied with the specific grant conditions, and special terms, including restrictions included in 49 U.S.C. §60130(b) related to lobbying and/or direct advocacy for or against a pipeline construction or expansion project, or direct support of litigation. In addition, we interviewed several PST staff members to inquire if their roles and responsibilities included advocacy and lobbying activities and, if so, were they aware of the grant award terms and conditions specifically related to 2 CFR §200.450 - Lobbying. For staff that were involved with lobbying, advocacy, and/or litigation, we inquired as to the cost center charged for time spent on these activities.

Our review of PST's website, interviews with staff members, as well as reviews of other documentation, including PST's Regulatory Testimony, Amicus Briefs, and Litigation Support, demonstrated that PST does engage in lobbying, advocacy, and litigation activities. Interviews with staff revealed that weekly check-in meetings are held between staff members and the Executive Director to discuss workload and the nature of the work to be performed to ensure that the allocations accurately reflect the work performed and that lobbying, advocacy and litigation efforts and not charged to the federal awards. We reviewed copies of the Personnel Action Notices and Timecards used throughout the term of the awards and confirmed that the allocation of time was revised to reflect current workloads where actual workload differed from the planned workload. Our review of payroll records and other documentation supported that time spent on lobbying, advocacy, and/or litigation activities was charged to funding sources other than the federal award.

We met with the Executive Director and Business Manager to discuss PST's lobbying, advocacy, and/or litigation activities. We found that PST is aware of 49 U.S.C. § 60130(b) and provides direction to staff on the allocation of time spent on these activities to cost centers other than the federal awards. The Executive Director noted that limited staff participate in these activities, which was evidenced during our staff interviews. PST stated the use of endowment income as the main source of funds used to support lobbying, advocacy, and/or litigation. We note that we did not audit PST's use of their endowment income and did not verify the accuracy of this statement. Also, as noted in the payroll costs section above, Watkins was unable to review any documentation to support the reasonableness of the payroll allocation percentages used by PST under either time reporting system it used.

We recommend that PST review 2CFR §200.450 Lobbying and provide training to staff to ensure staff fully understand the definition of lobbying, including advocacy and litigation. Training should include examples of lobbying activities along with guidance on recording time spent on these activities. Further, we recommend that PST strengthen the documentation supporting personnel costs by noting the activity, number of hours spent, and cost center on timecards. Maintaining more detailed time records will better support the charging of time to cost centers.

Conclusion

We have reviewed PST's compliance with 2 CFR Part 200 (*Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards*) and the specific grant conditions and special terms, and evaluated the relevant financial management systems, internal controls, and procurement practices of PST. As a result of our review, we concluded that, other than the impact of the internal control and compliance exceptions and weaknesses noted above, PST accounted for PHMSA Technical Assistance Grant funds in compliance with the requirements of 2 CFR Part 200 and the terms and conditions of the awards. Although we found that PST does actively engage in the prohibited activities of lobbying, advocacy and/or litigation, we found no evidence that federal grant funds were expended to pay for those activities. However, our review was limited because of the incomplete documentation PST was able to provide under either of the time reporting systems used during the grant audit period. The PST time reporting system used prior to May of 2025 did not include the employee recording actual time worked per pay period on allowable and prohibited activities. Also, while PST's newer method, started in May of 2025,requires an after-the-fact estimation of time spent on allowable and unallowable activities by the employee which is reviewed by the supervisor, it does not include the actual time worked by the employee for the pay period and does not specifically allocate time to prohibited activities.

Summary of Recommendations

Payroll Cost

We recommend that PST revise their methodology for recording and allocating payroll costs to more clearly reflect the work performed and the total activity for which employees are compensated, including the allocation of time to advocacy, litigation, and lobbying efforts. To comply with the requirements of 2 CFR §200.430 after-the-fact statements, PST should implement a timekeeping system which requires the recording of actual time worked, by the employee, for each award, program, or supporting activity.

Specific Grant Conditions and Special Terms

Personnel working on the TAG grant and other activities not allowed in the TAG grant, should maintain timesheets which record the actual time worked daily and provide descriptions of the work performed by award, program, or supporting activity. Timesheets should be signed by the employee and reviewed and approved by a supervisor. Supporting documentation should clearly identify time spent on lobbying, advocacy, and/or litigation activities, which are unallowable and cannot be charged to the TAG awards.

We recommend that PST review 2 CFR §200.450 Lobbying and provide training to staff to ensure staff fully understand the definition of lobbying, including advocacy and litigation. Training should include examples of lobbying activities along with guidance on recording time spent on these activities.

Cash Disbursements

We recommend that all required documentation to support a cash disbursement, including the review and approval of the disbursement, be maintained with the Payment Requests, in accordance with federal record retention requirements.

Segregation of Duties

PST should ensure compliance with Segregation of Duties requirement as the existing procurement policies and procedures do not require the review and approval of procurement transactions by someone other than the person initiating the procurement.

Reporting

We recommend that all Federal Financial Reports and Program Progress reports be reviewed and approved by an appropriate person other than the person who prepares the reports, and the supporting documentation, including evidence of the review and approval, be maintained in accordance with federal requirements.