

**Calculating, Documenting, and Charging Operating Expenses Webinar**  
**Thursday, May 6, 2021, 2:00 PM**

>> Hello. Welcome to everyone who has joined us already. We are going to wait just a few more minutes before we start. We do know that sometimes participants have difficulty logging in to Adobe Connect. While you're waiting, many of you have not answered the question in the poll in the bottom left-hand corner of your screen. If you can take a moment to answer that question, I'd appreciate it. Thank you. Sit tight. We'll get started in a couple of minutes. Thank you.

>> Hello. Welcome to FTA's webinar on Calculating, Documenting and Charging Operating Expenses. My name is Gwen Larson. Qi Tech is a firm that does reviews on FTA's behalf. Assisting me are Nancy [Coburn] and Barbara [Zweig]. First, I'd like to take care of a few housekeeping items. First and foremost, I would like you to know that this webinar is being recorded. And it will be posted on FTA's website soon. There will be a Gov-Delivery notification when this is posted on FTA's website. If you're set up to receive FTA's updates website, you'll get a notice. If not, go to FTA's website and right on the home page -- at the bottom of the home page --you can sign up to receive e-mail updates as they occur.

I would also like to let you know that if you have participated in one of these webinars already on Operating Expenses -- this is the fourth one that we are presenting -- I want you to know that the material that I'm covering are the exact same materials as the previous seminar. This is the same webinar. The only thing that changes are the questions that we receive and the answers we provide. This is the same webinar that has already been presented three previous times.

I want you to know that your audio has been muted. We needed to do that because there are so many participants. But we really encourage you to ask questions by typing them into the Q&A cube or box that you see on the left-hand side of your screen in about the middle of the screen. You can type in any questions you have there and Nancy and Barbara will be monitoring those questions. And then we're going to take breaks throughout this presentation and Nancy is going to bring your questions forward to me to answer. Now we know we're going to receive many more questions than we can answer. So, therefore, we will be posting all questions asked from all four webinars, along with your answers on FTA's website at a later date. Sometimes recipients ask questions that we cannot answer. We need to consult with FTA before we can answer.

Before I start, I do want to direct your attention to the cube in the upper left-hand corner of your screen, the box that says Webinar Resources. If you click on one of those documents that's listed there, you can be taken to FTA's website where you're able to download the sides and the other handouts I'm going to be discussing today. Take advantage of those resources. And I do want to make sure that if anyone is having difficulty looking at the slides, reading the slides, you can maximize your screen. And

the way you do that is you should see in the upper right-hand corner of your screen; you should see a box that is bracketed by four brackets. If you click on that, you can maximize your screen. Go ahead and do that if you do have any difficulties reading the slides.

So, I want to take a look at the poll results before we move on. Over half of you are familiar with charging operating expenses to FTA, about 31 percent of you are not experienced with that, and 13 percent of you do not know. So, welcome to all of you. We're going to talk a lot today about operating expenses and we hope that you find the content useful.

So, the purpose of today's webinar is to discuss eligible operating expenses, explain how to calculate FTA operating expenses, and examine appropriate documentation of operating expenses in electronic clearance house draws. All right. The reason for today's webinar is that under FTA's COVID-19 Relief Program, all recipients are now eligible to draw down FTA operating expenses at 100 percent. Previously if you were a large urbanized agency, being located in an area with 200,000 people, and if you operated more than 100 buses in peak demand service, you were ineligible for operating assistance. A few years ago, the rule was passed that says you can still be in a large urbanized area, but if you operate fewer than 100 buses in peak demand service, you're eligible for a sliding scale portion of FTA operating assistance. But now under the COVID-19 Relief Program, all FTA recipients are eligible for operating assistance at 100 percent, FTA's share.

When I talk about the COVID-19 Relief Program, I am talking about the four following programs. I'm talking about the Emergency Relief Program, the Coronavirus Aid Relief and Economic Security Act or CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act, CRRSAA and the American Rescue Plan Act of 2021, also known as ARPA.

I want to take a moment to make sure you understand what I mean when I say recipient or FTA recipient. What I mean is any entity that receives funds from FTA directly. Examples of direct FTA recipients, who receive triennial and State Management Reviews, they include municipal, county government, transit authorities, Indian tribes, Alaska Native tribal governments, State and Metro Planning Organizations, known as MPOs. Don't confuse an FTA recipient with a sub recipient. So, for example, FTA awards section 5311 funds, the rural area formula program funds, FTA awards those funds to States and States turn around and award them to rural transit systems as sub recipients. We have many section 5307 and 5310 funds awarded by States or other FTA recipients to sub recipients. If you are listening in today and you are a FTA sub recipient, meaning you do not receive your funds directly from FTA but you receive your funds from another FTA recipient, I want to warn you that today's webinar is designed primarily for FTA recipients. I may be talking about things that you're not familiar with, like the ECHO system. You do not do that as a sub recipient. You submit your request to the State DOT. I don't want you to be confused. You are welcome to stay and participate in today's webinar but as a sub recipient, you must follow the directives that

you are given by the FTA recipient passing the funds to you. Those recipients have some leeway in how they administer the FTA funds and you need to follow the directives that your direct FTA recipient gives you in how you handle your FTA funds if you are a sub recipient.

All right. Let's talk about eligible operating expenses. So if you look at the Circulars, and I am talking about FTA Circular 9030.1E, the Urbanized Area Formula Program Guidance or Circular 9040.1G, the Rural Area Formula Program Guidance, you're going to see a definition of eligible operating expenses that goes something like that. It's going to say, 'eligible operating expenses are those related to direct labor, materials and overhead expenses incurred by an operator to provide public transportation service'. But then what the Circulars do is they go on to list many examples of operating expenses. So, let's go through some of those here on this slide. Examples of eligible operating expenses including wages and benefits, fuel, materials and supplies, contracted services, overhead costs, special transportation services for persons with disabilities and indirect costs. Just a reminder, that if you do claim indirect costs, you either must have an approved cost allocation plan through your Federal cognizant agency or be eligible for the de minimis rate. So, under FTA's Coronavirus 19 Relief Program, there's been an expansion as to what qualifies as an eligible expense. I want to review those items today. But before I do, I want you to understand that in order to be eligible for your COVID-19 Relief Program award, your expenses must have been incurred on or after January 20, 2020.

All right. So, under the COVID-19 Relief Program Award, preventive maintenance is now considered an operating expense. So previously many of you were capitalizing the cost of preventive maintenance. But instead you can consider it an operating expense and draw down 100 percent Federal share. What you can't do is that you cannot do both. You cannot capitalize the cost of preventive maintenance and then also consider it an operating expense. You're going to need to choose to do one or the other. Under the COVID-19 Relief Program, existing operations and maintenance service contracts that were awarded prior to January 20, 2020, are still eligible for all services rendered under those contracts on or after January 20, 2020, are eligible for reimbursement, is what I'm trying to say, under the COVID-19 Relief Program Award even if those contracts were not procured according to Federal procurement guidelines. This is a really nice flexibility that FTA is offering you. Sometimes we see recipients who chose not to use any of their Federal funds towards their operations and maintenance service contracts. Therefore, when they go out to procure those contracts, they do not follow FTA procurement regulations. And if that was the case with you for a contract that was awarded prior to January 20, 2020, you can still use expenses incurred for those contracts on or after January 20, 2020 when you apply your COVID-19 Relief Program Award. Now a question that we've received is what if you procured those contracts after January 20, 2020 and you did not follow the Federal procurement requirement. And FTA's answer is no, then you cannot apply your COVID-19 Relief Program awards to those contracts if you did not procure them according to the FTA procurement regulation after January 20, 2020.

All right. So, administrative leave for operations and maintenance employees is an eligible COVID-19 Relief Program expense. The operating cost of essential delivery services, such as meal delivery services are an eligible expense but there's a finite period of time for these types of services. And that's for any expenses incurred for those services between January 20, 2020 through January 20, 2022. Now if you incurred any nonrefundable costs for events, travel or other activities that are approved in one of your FTA awards but that was canceled due to COVID-19, that is an eligible expense with your COVID-19 Relief Program Award. And the operating portion of the capital cost of contracting for all expenses incurred after January 20, 2020 are eligible expenses. If you had to make some purchases in order to continue your operations in the present emergency and specifically we're talking about things like home offices, set up a home office for your key personnel, those expenses would be eligible for reimbursement from FTA. I'm talking about things like laptops, remote secure access, printers, etc.

If you want to provide bonus or incentive compensation to your employees -- and this has been a common question received by FTA -- it is eligible for reimbursement through the COVID-19 Relief Program. But it's based on two conditions. First, all the bonus or incentive compensation must be reasonable, and you must have an agreement in place before you include the cost of any services rendered. So, if you don't have any sort of agreement in place with your employees that you want to provide bonus or incentive compensation to reward your employees for all their hard work during this pandemic, you are allowed to do that. Put the agreement in place and moving forward any services rendered will be eligible for reimbursement. A question many of you have asked is whether or not that agreement has to look a certain way, if it has to be a formal agreement, that type. And FTA's answer to that question was you need to follow your own internal policies when you're developing that agreement. So, if in your agency your General Manager has the authority to develop policies and post them as a memo or a bulletin to employees, that would then be your agreement with your employees informing them that you are going to provide bonus or incentive compensation. If you have any further questions about that, I would encourage you to talk to your FTA Program Manager. And in fact, there's many wonderful flexibilities that FTA is allowing under the COVID-19 Relief Program, far too many for me to talk about here today. It would be its own webinar. So, we can't address them all. But if you have any questions, please contact your FTA Program Manager.

So, next I'd like to talk about ineligible costs. And again, the Circulars just list several examples of ineligible costs. And they include school bus operation, charter bus operations, although I do want to remind you that there is that 45-day exception to the charter bus rules that was made under the Emergency Relief Program but outside of that, any charter bus operation expenses are ineligible. Entertainment expenses, fines, penalties or charitable donations are ineligible. Expenses for contingency funds, such as contributions to a capital reserve fund are an ineligible operating expense. And the depreciation that's accrued on your facilities and equipment that was acquired with Federal, State or local government funds is an ineligible cost. And finally, the interest expense on your long-term borrowing and debt retirement is ineligible.

Many FTA recipients have been asking FTA how they can recover their lost fare-box revenue. We know your ridership has taken a major hit during the pandemic and you can't report your lost fare-box revenue as an expense, but you will recover your lost fare-box revenue when you claim your eligible operating expenses at 100 percent FTA share. Because those seem to confuse recipients, we developed this table on this slide and I'm going to walk you through this table to demonstrate what I'm talking about. Let's compare March of 2019, pre-pandemic to March of 2020 post-pandemic and let's see how this plays out. In March 2019, we had eligible operating expenses of \$100,000. And then we had 20 percent fare-box revenue and we deduct that and we're left with \$80,000. This is a pre-pandemic award. And typically, the FTA share is 50 percent when it's not a COVID award. FTA's share is 50 percent of the net project cost and that means FTA's share is \$40,000. Let's compare that to March of 2020, when the pandemic hit, and your ridership dropped substantially. We are still showing eligible operating expenses of \$100,000. And we only have fare-box revenue of \$5,000 to deduct. So, the net project cost is \$95,000. You get to draw down 100 percent FTA share with your COVID-19 Relief Program Award. Therefore, you are drawing down \$95,000. So, you are going to recover your lost fare-box revenue when you're claiming all of the eligible operating expenses because you have so much less fare-box revenue to deduct from your eligible expenses.

All right. I want to remind you that you cannot reimburse operating expenses that have already been reimbursed by a Federal award. That's always been the rule. That hasn't changed. For example, perhaps you've received a CRRSAA award, you cannot use that to reimburse yourself for any expenses occurred that were already reimbursed by a CARES Act award, for example. One final reminder. For those of you that are receiving your COVID-19 relief funds through your section 5307 program, you still must allocate at least 1 percent of those funds for a public transportation security project unless you can certify that those expenditures are unnecessary. That requirement for spending 1 percent on 5307 funds on public transportation security projects does not go away when your COVID-19 Relief Program awards are funded through your 5307 program.

At this point, I would like to take a break and ask Nancy if we have questions specifically relating to eligible and ineligible operating expenses.

>> Yes, Gwen. Could you go into a little more detail about eligible payroll expenses? The questioner would like to make sure that they understand what payroll and fringe benefits are eligible. Is it only for drivers and mechanics or would other nonoperational employee salaries also be considered eligible under the relief program?

>> Sure. I would be happy to explain that. That's a great question and one that we've received quite frequently. Eligible operating expenses include all of your employees that play a role in delivering public transportation services. So, it's not just held to your frontline employees. It would include not only bus drivers and dispatchers, but also your maintenance personnel, it would include any instructors you hire, route schedulers, your

managerial staff, your administrative staff, anyone who helps put service on the road for you, whether directly or indirectly, would qualify as an eligible operating expense.

>> Okay. Great, Gwen. Thanks. Also, could you reiterate one more time what you were saying about operations and maintenance contracts that were in place prior to January 2020 that were locally funded or did not meet Federal requirements? Would those expenses still be eligible for reimbursement under COVID going forward?

>> Yes. The answer is yes. If you awarded an operations or maintenance contract prior to January 20, 2020 without following the Federal procurement rules, you may still apply the expenses for those contracts that were incurred on or after January 20, 2020, to your COVID-19 Relief Program Award.

>> But the qualification is, you can't renew that contract after January 20, 2020 without the Federal requirements. Is that correct? Is that what you said before?

>> That is. And I think the way you said it was more clear.

>> Okay. So, it can't be renewed or extended, something like that. Okay.

>> That is correct. Or bid out again without following the Federal procurement guidelines.

>> Okay. Let's see. There's a couple of questions here, Gwen, which are new to the webinar, but I think we can answer them. The participants want to know what kind of information on our eligible expenses gets reported in DBE semi-annual reports. Is there any overlap between DBE and what you're talking about today?

>> Yes, there is. So, all of your contracting opportunities, if you meet the DBE threshold, if you met the DBE threshold before you received your COVID-19 relief program award, then you are still going to need to include any contracting opportunities associated with those awards in your semi-annual DBE uniform report. However, if you did not meet the DBE threshold prior to receiving your COVID-19 Relief Program funds, then you do not need to report the contracting opportunities or develop a goal based on those COVID-19 Relief Program Award. Nancy, do you think that's answering the question or questions that were asked?

>> Yeah, I think that's it. I think the important thing is to keep track of your contracting opportunities. And if you have been required to report them in the past, then you still need to be tracking those and reporting them in the future.

>> Correct.

>> And if you had not been a DBE reporter prior, didn't have a program, then at least for this year we've been told that there's not an obligation to get a new program in place. I don't know that FTA has made a determination going forward about that but at least for

this year that's what we've been told.

>> Correct.

>> Okay. I think that's all that's specific to operating assistance right. Go ahead and if we get more questions, I'll keep track of them and maybe we can get to them at the end.

>> Great. I just want everyone to know that if we don't get to your question, again, I want to remind you that the questions and the answers will be posted on FTA's website at a later date. All right. We have another poll for you. Barbara is going to open up another poll. And if you could just take a moment, please, to answer the question in the bottom left-hand side of your screen, I would appreciate it.

All right. So, you can keep taking the poll because I find this very interesting. But let me tell you that it looks like many of you are not familiar with the sample operating expense worksheet. This worksheet comes from FTA Circular 9030.1E, the Early Urbanized Formula Program. If you look in the upper left-hand of you screen, I have included it. You can download it. It includes instructions to using this worksheet that corresponds to the letters and the numbers you'll see me take you through. You do not have to use this operating expense worksheet, it's just a really great tool that FTA has developed for you. I can see a few of you are familiar with it. I want you to know that I've been conducting State Management Reviews for 11 years now. And whenever I have reviewed the ECHO-drive for an agency that's used this worksheet, I've never encountered a problem with the drop. So, in my opinion, it's a best practice. But FTA does not prescribe to you that you have to use any certain type of form. They never dictate what your documentation needs to look like, exactly what it must look like. They don't do that in any area of compliance. This is just what I think is a best practice.

So, what I've done is created a fictitious agency I'm calling the Metropolitan Transit Authority and I'm going to prepare an ECHO draw using this worksheet. It's going to be for the month of March. This is for the period March 1 through March 31, 2021, and this is a CARES draw for operating assistance. So, I really have oversimplified here. And if you look under letter A, I'm itemizing total operating expenses. I've really over simplified. But just for the sake of demonstrating to you what this looks like. So, we have total operating expenses, wages and benefits, fuel, parts and supplies and overhead costs, totaling \$100,000. And then we go to the next slide and we are going to deduct what the worksheet calls 'elimination.' So, I'm going to take you through, under number one, I'm going to itemize any ineligible expenses. So, for my worksheet I am listing depreciation because all of our facilities and equipment was purchased with Federal and State and local government funds. So, I cannot include that depreciation. I am going to include our Capital Reserve Fund contribution because that is an ineligible expense. Now number two is where I would list any non-public transportation service I was providing. This is where we would see charter bus service. So, some of you do provide charter bus service. You do that legitimately following FTA's charter bus rules. But you would list those expenses associated with that charter bus service here under number two if that were the case. Number three is our revenue and offset items, also

known as contra-expenses. I'm going to talk about these a little more in a moment. I'm listing earned interest off of our account and insurance claim. We had a bus, involved in an accident, and we received a \$14,000 claim. Number four are any other exclusions you would need to cover. So, for example, if you are capitalizing the cost of preventive maintenance, and you included them in your operating budget, you would deduct them here. I am showing total eliminations of \$25,000 which we will deduct from all of our operating expenses. So, you can see that we at letter C, our eligible operating expenses are now \$75,000. And now we have to deduct our fare-box revenue so under letter D, our ridership is still down so we only have \$5,000 in fare-box revenue to deduct. That leaves a net project cost under letter E of \$70,000. This is the amount that is eligible for reimbursement by FTA.

Letter F is local share. And it's not applicable for this award because this is a CARES Act award. I get to draw down 100 percent Federal share. I don't have to use local share. I could but I'm not going to. It's 100 percent Federal share. Then we get to line G and we have net expenses before we apply the FTA funds of \$70,000. The maximum FTA share under letter H is \$70,000 because of 100 percent CARES Act award. And so, letter I, the amount of funds I'm going to request is \$70,000. I wouldn't have to pull down the full amount but I am going to do that.

Now I want to just go back for a moment to F, local share, and talk a little bit about that. If this was not a COVID-19 relief award, it was just an award for operating assistance awarded prior to the pandemic, probably the FTA share would be 50 percent. So, what I would do under letter F is, I would list all of my local share. And I want to make sure you understand what local share consists of. Local share is state operating assistance, it would be local operating assistance, it could be general fund revenue, property tax, sales tax revenues and even non-fare-box revenues like advertising or concessions could be considered local share. So, if you were working here with a non-COVID-19 relief award that was not a hundred percent, it was 50 percent operating share, then what you would need to do is make sure that maximum FTA share of 50 percent did not -- that you did not draw down more than 50 percent of letter E, net project cost.

All right. So as promised, I am going to talk a little bit more about contra-expenses. Because if you're like me and you've had no training in accounting or finance, you might be confused by this term. So, I want to explain it to you. Contra-expenses are revenue items that directly offset your transit expenses. Therefore, you have to remove them. Examples include earned interest off of your account. We've had a lot of feedback from recipients saying, what? Why would that need to be contra-expenses. Why would that be a revenue offset item. I don't have to answer for that. The only thing I can tell you is it's in the Circulars. This has been the rule, I would guess, from the beginning. It's in most of the Circulars that I'm referencing today, earned interest is a revenue offset item. So are the proceeds from the sale of equipment in excess of the depreciated value, any cash discounts or refunds you receive and insurance claims.

Now I just want to talk a moment about insurance claims. Let's say you had a bus accident like I showed you and you would need to report that insurance claim because



you cannot double-dip with FTA funds. You cannot report the repair costs for that bus accident and then receive a claim for the full amount of the repairs. What you can do, however, is sometimes we know your insurance claims don't cover the full repair cost. Therefore, you can include those repair costs that go above and beyond what your insurance claim covered. So, in my example, I would have had all of the repair costs already listed in my operating expenses and then I just applied the insurance claim as a contra-expense. And then any other reimbursement expenses that you receive that directly offset your accrued liabilities are a contra-expense. I want to take a moment to take a break and to see, Nancy, if we have any questions specific to how you calculate operating expenses.

>> Yes, Gwen. Could you just once again reiterate what needs to be deducted? You said fare-box revenue and you said not local share. But there's a little confusion about what you meant there by local share versus some of the other revenue sources. Once again go over advertising concessions, those types of things.

>> Sure. I'd be happy to do that. So, I flipped back to my sample operating expense worksheet. And the only revenue that you have to deduct from eligible operating expenses are your fare-box revenues. And then the local share you would not have to deduct from any of your COVID-19 Relief Program Award. So, for your Emergency Relief Program awards, your CARES Act, your CRRSAA or your ARPA award, you do not have to do that. Let's go through examples of local share once again. And all of this information is in the Circulars that I've referenced today, and I do have a link to 9030 up on the webinar resources box. But examples of local share are State operating assistance, so if it was a capital grant, any State capital assistance you received could be local share. Any local operating assistance, general fund revenues, if you're a city or a county you might have those. Any property tax, sales tax revenues you receive. And any advertising or concession revenues that you have can be used as a local share.

>> Thanks, Gwen. There were three or four questions asking a little more specific information there. I think it's good you said all of this is addressed in the Circular. Really, the CARES act hasn't made any changes in how you're calculating. The only change is that 100 percent is now eligible to be drawn down. But the definitions of what's local share is all the same as what's been in the Circular all along.

>> Yeah. Good point to make and I'm glad you made that point. Thank you.

>> Okay. Why don't you go ahead, Gwen. Again, we've got more questions that we can get to when you finish your presentation, I think.

>> All right. Thank you. So now we're going to discuss how you should be documenting your ECHO draws for operating assistance. Much of what I'm going to tell you would apply to any kind of draw you're making and how you would document it, whether it was for capital assistance, planning assistance, et cetera. We're going to focus on documenting your draws for operating assistance. At a minimum, your ECHO draw designation would contain evidence that the recipient's designated ECHO official

approved the draw before it was made in the system. By evidence, I mean there needs to be a piece of documentation. It could be a form you created or a memo of some sort. But there needs to be a piece of documentation that shows that your ECHO-approving official signed and dated that documentation with their approval that they reviewed and approved that draw before it was made in the ECHO system. We need to see evidence that the person who prepared the ECHO draw was not your ECHO-approving official or designee. And we need to see that the person who went into ECHO and drew down the funds was not your ECHO-approving official. We're looking for the duties. That tells us whether you're following your internal control. We need to see in your ECHO draw documentation is the underlying transaction amount. We need to see the full cost that went into the project. This shouldn't be hard with your COVID-19 Relief Program Award, because you get to draw down 100 percent. So, you're going to show us all of the expenses that went into that draw. Where we sometimes run into problems is when the FTA share is less than 100 percent, let's say it was 50 percent, and then sometimes recipients only show us the documentation that went into FTA's 50 percent share. But that doesn't work for us. We have to see the full amount, the underlying transaction amount. Because we need to make the determination that you did indeed draw down the correct Federal share.

All right. We need to see that expenses are reasonable, allowable and charged to the correct activity line item or ALI. So, what I'm talking about here is in TrAMS, when you bill your award, you bill them with specific ALIs and you tell FTA how you're going to spend that one in each activity. And we need to see within your ECHO documentation that you did charge the correct ALI. We need to see evidence that your contra-expenses, fare-box revenue and local share were deducted from eligible expenses. Local share deduction is not required for your COVID-19 relief award. If you use the sample operating worksheet, you're going to cover many of the bulleted items in that worksheet which is another good reason why I think it's a best practice to use that worksheet.

At a minimum, your ECHO draw documentation must contain evidence that you charged the indirect cost rate, when applicable. We need to see evidence that the correct Federal share was drawn down. Again, with the COVID-19 relief program, your Federal share is 100 percent. And we do need to see evidence that the expenses were incurred prior to the ECHO draw unless those funds will be disbursed within three days. For most of you, that's not a problem. But what I do need to ask that you do is be sure that the reports that you include with your ECHO draw -- usually you're running a detail general ledger report from your financial system. Make sure that the dates that the expenses were incurred, and the revenues were received, are very clear on that documentation. I can't tell you how many times we look at ECHO documentation and there's no date on it. We have no idea when the expenses were occurred and the revenues paid. We need to make sure that's clear. Many recipients ask us what type of documentation is appropriate to demonstrate underlying transactions. And what we most frequently see are payroll reports, time and attendance reports, detailed general ledger reports. So, those reports can have within them detailed payroll information that will suffice. And then documentation of in-kind charges, when applicable. Sometimes

we also see copies of paid invoices and copies of checks cut to vendors. Although it's more likely that we're going to see that type of documentation with capital expense draws. But it might be relevant to your operating assistance draws as well.

What we're going to do next is we are going to look at real ECHO draw documentation from a real FTA recipient. This is a recipient going through a triennial review. And we asked if we could use a draw that they made for CARES Act operating assistance and share that with you, and they said yes very graciously and we thank them for that. I have redacted all confidential information. I've also condensed what that provided so it would fit on the slide. I have a copy of the full documentation up in the revenue resources box and it says sample ECHO draw. Download that so you can see the full documentation that was submitted by this recipient.

All right. One disclaimer, very quickly. I just want to remind you FTA does not say that this is the way that you have to document your draws. They do not dictate exactly what your documentation needs to look like. I am just sharing this with you as an example of what I and my colleagues believe is an example of a good practice. So, this very first page is the ECHO confirmation page. Those of you that make the draws in the ECHO system know that piece of documentation. You make the draw in ECHO, you receive a confirmation page that looks something like that. So, we want to see this confirmation page with your ECHO draw because this tells us who the approving official is in the ECHO system and also who the requester is, who is authorized to pull down the funds in the ECHO system.

The next slide is actually two separate pages in the recipient's ECHO documentation. The first is this memo. And I really like this memo. They summarize every ECHO draw they make. The Finance Manager does send a memo to the General Manager and the General Manager is the Authorizing Official in their ECHO system and the Financial Manager explains exactly what this draw is about. They tell them the amount of the draw is \$1.7 million, they listed the award number, although I needed to redact that. We can see it's for the first quarter of their fiscal year 2021 which for them is July 1 to September 30, 2020. And then we know that they're pulling this down against their 5307 CARES Act operating expenses award. This is a great practice for them to summarize the draw in that manner. Then what they do is they use the old style ECHO payment request form. And this is what their General Manager who is their Authorizing Official signs and dates before the award is made. This is how they choose to document that their Authorizing Official approved the draw before it was made. That's great.

Now this next page I really love. This is an internal spread sheet that this recipient has developed to track their awards in exactly the manner that FTA asks its recipients to track its award. So, at the top of the page you can see I changed the award numbers. I used my initial. They're tracking two awards. They're tracking a 2018 award, a capital assistance award pre-COVID and then they're tracking the draw for which we are showing the documentation which is a 2020 award for CARES Act operating assistance. You can see at the top, they show you the beginning award or grant total, the

drawdowns to date, the remaining balance, how much the current draw is and the new grant balance. Everything FTA asks its recipients to do in different areas of the review. And so that's great. And then we go down to the bottom and we can see they're tracking not only by activity line item, ALI, the way we ask, but they're also tracking by an obligated and unliquidated amount which is great for them when they're preparing their Federal financial reports, their FFRs in the TrAMS system. This I think is a best practice. And then the recipient goes on to provide a very detailed income statement. It appears to be a type of general ledger report that is generated from their financial system. I have condensed this into very generalized categories to get it down to three slides. But if you download the recipient's real ECHO documentation, you're going to see seven detailed pages of an income statement which is exactly what they should do to document this drop. But I have just categorized them into general categories to make it more simple.

So, let's take a look first at the revenues and what they call operating revenue is their fare-box revenue. And for most of this period, they were not charging a fare. So, they don't have a lot of operating revenues to report. And then they chose to report nonoperating revenues. So, they reported advertising on buses, they did not need to. There was no local share required for this award, but they chose to do that. So, don't get confused. They didn't have to report it. They made that decision to report it. They are reporting interest on investments, which I told you is a contra-expense. That's good they did report that. That does need to be deducted. We don't know what miscellaneous revenues are, that's good they're deducting that. And they are also, with their overpass property revenue, reporting that. That seems to me that could be almost a concessions revenue of some sort. Again, they probably didn't have to report that but they chose to, and that is fine. And then this recipient also chose to report local operating assistance and property tax assistance. Again, it's a CARES Act award. It's 100 percent Federal share. They didn't have to do that. But they did. So, don't be confused by that, please. They chose to do that. And then they're listing what they've already drawn down in FTA operating assistance. So, we have total revenues of \$4.4 million. And then we get into their expenses. And the bulk of this recipient's expenses were wages and benefits. Very, very good detailed payroll report-type of information that's in the full documentation. They gave us labor and fringe benefits by every single labor category in their agency. So, they did exactly what we asked for. But I, again, have consolidated it into general categories. So, you can see we have labor and we have total fringe. I highlighted the last mechanic capital labor. I wanted you to see what they were doing. They have some mechanic labor that's probably going to be charged to a capital award. Maybe it's something like overhauling the engines or the transmissions or something. Whatever it is, they are deducting that like they should because my guess is they're going to charge that to a capital award. We have more expenses, we have services, materials, and utilities. Again, I highlighted the accident reimbursement because I wanted to show you that they did receive an insurance claim and they did deduct it as a contra-expense, the way they should have. We get down to the total expenses, we have \$6.1 million in expenses, less the revenues of \$4.4 million and a net project cost of \$1.7 million and they can apply 100 percent Federal share and

they are. So the draw is \$1.7 million. This recipient did a really great job documenting this ECHO draw.

We're going to talk about some best practices with ECHO draw, many of which we just saw with this recipient. So, some best practices when you are documenting your ECHO draws. First, include the operating expense worksheet or a similar form for each draw. Many recipients choose to take the operating expense worksheet from the Circular and drop that into an excel spreadsheet. They might tweak it to better align with their financial system. I've seen many recipients tweak it for other types of draws, planning assistance or capital assistance. It's a really good tool to document your draws. Do include a cover sheet or a memo or some simple form that summarizes the draw. The reason why I think this is important is that so many times as reviewers, we're on-site with you conducting your state management review and we're looking at the ECHO draws that we've selected to review and there's no one left in your agency that had anything to do with that draw. The approval official is gone, the requester is gone and there's maybe missing documentation and no one in your agency knows what that draw was for or why it was made and that's a real problem and that leads to deficiencies. So, if you are documenting your draws with some sort of cover sheet or memo that summarizes the draw, that will really help you and it will help FTA and your reviewers as well.

Do include the ECHO system confirmation as I said previously so that we can identify your agency's ECHO-approving official and the requester. We need to verify both. And do include detailed general ledger reports, not a copy of an approved or adopted budget. And what I want to warn you about this is that occasionally we do find recipients that are just drawing down a certain percentage of their adopted budget. So, let's say they make a monthly draw and they just draw down 1-12th of their adopted budget, you cannot do that. You need to draw down your funds based on actual expenses incurred and revenues received. So, giving us a copy of an approved budget is not adequate documentation. We're going to need to see some detailed general ledger reports that tell us exactly when expenses were incurred and when revenues were received. More best practices include documentation that demonstrates the exact date the expenses were incurred, which I've beat to death and I won't talk any more about that.

Do ensure that the correct people within your agency are assisting with the calculation of operating expenses. It's so common that we see people put people who are not in charge of accounting, maybe it's management staff and it seems to me it would be a better practice to get your accounting and finance people involved. If they're not responsible for preparing the draws, at least that they review the draws, make sure operating expenses have been calculated correctly. Do make draws for operating expenses regularly. We recommend that you do it monthly. But if you're a smaller recipient, perhaps quarterly is accurate. Do that so you can reduce the amount of documentation that's required for each draw.

Let's talk about some things you should not do with your ECHO draw. So, you should not have your ECHO-approving official sign and date the ECHO draw documentation after the draw is completed. They need to sign and date and approve the draw before it is made. Please do not draw down funds before expenses have been incurred unless you're absolutely certain that those expenses will be incurred within three business days, because on day four interest begins accumulating. And if FTA chooses, once those corrections are made, FTA can request that interest back. Now again with operating expenses, I never see this as a problem. Most of you are incurring the expenses. For example, when I took you through my worksheet it was for the month of March and then I would be preparing the draw in April or May so that the expenses occurred and we knew the Federal funds had been disbursed. If we ever see recipients draw down funds early, it's usually because there's a large capital purchase being made, perhaps you're buying \$10 million worth of buses and you don't have that cash flow so you draw down the \$10 million from FTA and then you turn around and you immediately cut a check to the vendor or you wire those funds to the vendor and you just need to do that within three business days and show us that the funds were disbursed within three business days.

So, for your operating expenses you'll show the period that the expenses were incurred, and revenues received. Do not complete one draw for the entire FTA award amount since again the documentation could be very overwhelming. And we find there's a greater likelihood of you missing eligible expenses when you make just one draw for the entire award amount. So, I'm going to take a break again and I'm going to ask Nancy if we have any questions relating specifically to how you document your ECHO draws.

>> Yes, Gwen. Could you reiterate just one more time, is that worksheet required? Do recipients have to use that worksheet to document their ECHO draws?

>> The answer is no. That worksheet that I took you through is not required. FTA never dictates exactly what your compliance documentation needs to look like. I just think it's a best practice. But you do not have to use that worksheet.

>> Okay. So, then the follow-up question was, if the recipient had a system in place for drawing down that's been not deficient in their reviews up to now, can they do it the same way or are there different requirements for the CARES Act for drawing down funds?

>> That was a great question. The answer is, there's no special way to document for CARES Act funds or any of the COVID-19 relief program awards. And if what you have been doing has worked for the reviewer in the past, then you're fine. Don't worry. You don't need to change anything. You just need to be able to document those items that I went through. I don't know if you noticed, but the recipient who we felt was an example of a best practice doesn't use the worksheet either. But they still are doing a great job documenting their draws. So again, you do not need to use that worksheet. It's just a useful tool, if you so choose.

>> Okay. Great. Thanks, Gwen. So, the only difference with the CARES Act is the Federal share is a hundred percent. Otherwise they would just go through the normal process, correct?

>> Correct.

>> Okay. And then one more follow-up. For fringe benefit costs that are included in the ECHO draw in the CARES Act, should the recipient use the same indirect cost rate that has been approved in the past? And maybe you could go on and talk a little bit more about indirect costs and overhead rates. I know that was a question a few other people had.

>> Sure. Okay. Sure. So, yes, you would continue to use that indirect cost rate that you were using for your non-COVID-19 Relief Program. Yes, you should continue to use that. We received in the past quite a few questions about overhead costs and indirect costs and what's the difference between those two, so I'll just take a moment to explain that. And basically, overhead costs are indirect costs. They are those expenditures that you cannot directly link to the operation of your transit services. So, they are expenses such as rent, as utilities, office supplies, office equipment. It can also be the wages and benefits of persons that supports your system but are not directly employed by your system. What I'm referring to here are government recipients. We have cities, counties and States, and they may be supported by other departments within those government units, but they're not directly employed by transit. That could be overhead costs too. Sometimes recipients directly charge their overhead costs with, they track them, they charge them directly to their award. And sometimes they develop what's called a cost allocation plan and they charge them through an indirect cost rate by which they allocate a certain amount of those overhead expenses to all the agencies, to all of the units within their government agency. And that's much more efficient for them than trying to have the employees track where they're charging each of their hours to what program. So, for example, you might be a city transit system, you might be sharing your shop and your garage with another city department. You might be sharing the city finance people, your HR people, your risk management, et cetera. And so, you charge an indirect cost rate that counts for the time for those individuals, rather than charging those overhead costs directly to an award. So, Nancy, do you think that answered the question?

>> Yes, Gwen, I think so. I think that's what the person was getting at. So just one more last question before I let you go on. Could you explain one more time, is there a requirement for how often a recipient needs to draw down funds?

>> No. FTA does not specify how often you need to make draws. What I was telling you were examples of best practices. We know from experience that it's a best practice to make regular draws off of your awards for operating assistance, rather than just making one draw a year or making one draw for the entire award because we know that there's a lot of documentation required for operating expenses and we know that sometimes expenses are missed when you only make one draw. But it is not required

that you make more than one draw per award or more than one draw per year. That is not required.

>> And what would you say is a best practice, monthly or quarterly? Is there a standard that you would recommend?

>> We usually recommend monthly, but if you're a real small recipient and dealing with a small operations award, quarterly might be adequate. And like we saw with the recipient whose documentation we looked at today, they are drawing down quarterly.

>> Okay. Great, Gwen. Why don't you go ahead and we'll get to a few more when you wrap up?

>> Sounds good. Thank you. All right. Let's put up another poll. Barbara is going to put up our last poll in the bottom left-hand corner of your screen. Will you take a moment to please answer that question? I just want to thank everyone who is being brave to answer this question, honestly. Kudos to you. Uh-oh. You made a mistake calculating your operating expenses or made a mistake in the ECHO system. Now what do you do? Well you do not panic. Because look at the results of the poll. 74 percent of you have made an error drawing down your ECHO funds. It happens. Okay. So please don't panic. But if it's been more than three business days since you made that ECHO draw, please do not make any adjustments in the ECHO system or return any funds. Instead, contact your FTA Program Manager. And your FTA Program Manager will work with you and they will help you determine the correct course of action. Now I just want to remind you that if you are directed by your Program Manager to make adjustments in the ECHO system, such as a refund, do remember to report those adjustments in your next Federal financial report, the next FFR in TrAMS, in the narrative section, you should describe what happened, what the mistake was and what the adjustment was that you made to fix that mistake. Because that's something that your reviewers are going to look at. We always sample one or two adjustments in the ECHO system. And so, then we can go to your FFR and see exactly what happened and why. But it's also required, as well. The Circular requires you to report ECHO adjustments in your Federal financial report.

All right. This next slide is just hyperlinks to every resource that I used today to prepare and present this webinar. So, if you download the slides, you're going to have hyperlinks to the Circulars that I referenced and also to FTA's COVID-19 [page](#) which includes frequently asked questions. Another good reason to download the slides is for this particular screen. And now we're going the answer as many questions as we can in the next five minutes. A reminder that if we don't get to your question, we will post the questions with the answers on FTA's website at a later date. So, look for that. The webinar will be posted as well. There will be a notification going out to all that are signed up for FTA updates once it's been posted. And Barbara is going to put up a poll. I hope you stick around for the questions and answers but if you need to leave, will you take a moment to answer that poll and let us know if you found today's webinar useful. Nancy, let's open it up to more questions, please.



>> A couple more follow-ups here about the DBE question that came up earlier. And I think just based on looking at the follow-ups, it's important to emphasize that the DBE semi-annual reports are reports of contracting opportunities and payments. You're not reporting your operating expenses in the DBE report. Those are completely different reports. There's nothing new in what Gwen is saying about the DBE reports related to the operating expenses. Sounds like maybe some people were confused with what I may have said before. Gwen, does that make sense to you? Does that need to be clarified?

>> That makes sense to me. Right.

>> The follow-up question was saying wouldn't DBE contracting opportunities likely increase with opportunity to use FTA funds for operations. And that would be the case if you were contracting out operations. But not for your own payroll. I think that's --

>> Not for your own payroll. It really will depend on what you consider an operating expense. For example, fuel. If you are reporting your fuel purchases, your parts and supplies, some of the preventive maintenance things, purchases, if you consider that an operating expense, I would say those are potential contracting opportunities. But wages and benefits themselves, no.

>> Good. Okay. Thanks for clarifying that, Gwen. And then also the only thing else I'll add, this is addressed in the frequently asked questions and FTA notes that if CARES Act funds are just a temporary increase in your overall source of Federal funds and a temporary increase in your contracting opportunities, there's not an obligation to put a DBE program in place. And I think that's what you said before, Gwen. But just to clarify that for the follow-up questions here.

>> You said that correctly. Thank you.

>> Thank you. And another question about what kind of special documentation, if any, is necessary in the ECHO draws for using CARES Act funds? Is there any special documentation over and above what's been required in the past?

>> No, there is not. So just because you have a CARES Act award or one of the other COVID-19 relief program awards, there's no special documentation required above and beyond what would normally be required. What I took you through today is applicable to non-COVID awards as well as COVID awards.

>> Another question about funding staff. If in the past administrative marketing, nonoperational staff were locally funded, can those salaries now be included in operating expenses under the CARES Act?

>> I believe they should be able to. These are direct employees, I assume?

>> That's what it looks like. So, it's just that in the past this agency was only using their Federal funds for operations. But they have other administrative tasks.

>> And administrative staff that work for the transit agency are eligible, so that would be considered an eligible expense under your COVID-19 relief programs. I just want to perhaps put in a disclaimer though, that if this is a section 5311 sub recipient asking this question, there are some differences with how the 5311 programs look at those types of salaries and they are considered administrative in nature. Again, if you are a subrecipient, you need to consult with the agency passing those funds through to you and you need to handle the funds in the manner that you are instructed by that agency.

>> Okay. It's not clear who is asking the question, but they definitely are asking about administrative and managerial staff that have not been Federally funded.

>> Okay.

>> Need to follow the instructions of their primary recipient but if it's a regular 5307 recipient, those would be considered eligible operating expenses, correct?

>> Correct. Correct.

>> Okay. All right. Go ahead, Gwen.

>> Maybe we could take one more. Should we do one more? I know it is 3:15 PM Eastern Time but maybe we can take one more if you have it.

>> Okay. There's a couple of questions here about recipients that have open 5307 awards and they also have CARES Act funds. Could you clarify, is there any problem with them drawing down their traditional 5307 under what would be the standard local match at that time? And then also drawing down CARES act funds as long as they're not double dipping. I think the concern is like the overlap here.

>> Right. You know, you can't apply those awards to the exact same expenses. You can't apply two awards to the same expenses. So, as long as you're not double dipping, that's fine. And I'm not sure I understood the question exactly, Nancy.

>> They wanted to clarify that there's no prohibition on using relief funds in the same period as traditional 5307 operating funds. But it would be for different projects.

>> Oh. Right. And that is correct. What you said is correct. There is no prohibition against that, no.

>> Okay. Great. And we do have a lot of very detailed questions about specific circumstances that we'll refer to FTA and hopefully get answers posted on the FTA website at the conclusion of this process. So, that's all for now, Gwen. Thanks.

>> All right. Well thank you. I want to thank all of you for participating today, for providing really great questions. We will get you those answers as soon as we can, like Nancy said. The webinar itself, the recorded version of the webinar will be posted sooner than the Q&A will because those will be reviewed by FTA before they're posted. But again, you'll get a Gov.-Delivery e-mail, a notification when the webinar is available and I'm sure you will too when the Q&A is posted. Before you go, will you please take a moment to answer the poll in the bottom left-hand side of your screen. FTA is using this information to decide whether to begin offering webinars on specific topics like this in the future. Thank you for your time. I hope when you have your next review that it goes really well. And I hope that you have a great day. Thank you, everyone.