

2. FINANCIAL

BASIC REQUIREMENT

The grantee must demonstrate the ability to match and manage FTA grant funds, cover cost increases and operating deficits, financially maintain and operate FTA funded facilities and equipment, and conduct and respond to applicable audits.

AREAS TO BE EXAMINED

1. *Financial Capacity*
2. *Eligible Expenditures*
3. *Funds Management*
4. *Audits/Oversight Reports*

REFERENCES

1. [49 USC Chapter 53](#), Federal Transit Laws
2. [49 CFR Part 18](#), "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments"
3. [FTA Circular 5010.1D](#), "Grant Management Requirements"
4. [FTA Circular 7008.1A](#), "Financial Capacity Policy"
5. [FTA Circular 9030.1D](#), "Urbanized Area Formula Program: Program Guidance and Application Instructions"
6. [FTA Circular 9300.1B](#), "Capital Investment Program Guidance and Application Instructions"

7. [FTA C 9070.1F](#), "Elderly Individuals and Individuals with Disabilities Program Guidance and Application Instructions"
8. [FTA C 9050.1](#), "The Job Access and Reverse Commute Program Guidance and Application Instructions"
9. [FTA C 9045.1](#), "New Freedom Program Guidance and Application Instructions"
10. [OMB Circular A-87](#), "Cost Principles for State, Local, and Indian Tribal Governments"
11. [OMB Circular A-133](#) "Audits of States, Local Governments, and Non-Profit Organizations"
12. [FTA Master Agreement](#)
13. [Single Audit Act Amendment of 1996](#)

USEFUL WEB LINKS

[Guidance for Transit Financial Plans](#)

[Flexible Funds: FHWA and FTA Programs](#)

[Revenue Bonds](#)

[Debt Service Reserve Financing](#)

[ECHO Web User Manual for FTA and FAA Grantees](#)

[Federal Audit Clearinghouse](#)

QUESTIONS FOR THE REVIEW

1. *Has FTA conducted a Financial Management Oversight (FMO) review or a Financial Capacity Analysis (FCA) during the past two Federal fiscal years? If yes, when was the site visit? Is a review scheduled for the current fiscal year?*

EXPLANATION

FMOs and FCAs are oversight mechanisms of FTA. Even if such a review is scheduled for the current fiscal year or has been conducted within the past two Federal fiscal years, all questions in this section are still asked. If a review has been recently conducted, obtain a copy of the most recent report (draft or final) for input into the triennial review.

REFERENCE

None

SOURCES OF INFORMATION

Review OTrak. During the desk review, the reviewer will discuss with the regional office and obtain any FMO or FCA reports.

DETERMINATION

None

SUGGESTED CORRECTIVE ACTION

None

Part A. Financial Capacity

2. *What are the grantee's sources of non-FTA funding for operating and capital expenses? Are the funds eligible?*
3. *How does the grantee determine the availability of subrecipients' local match and operating funds? How does the grantee ensure that only eligible funds are used by subrecipients for local match? How does the grantee ensure that subrecipients fully document volunteered services or in-kind revenue used as local match?*

EXPLANATION

Annually, the grantee certifies to FTA (as part of the annual certifications and assurance process) that it and its subrecipients have the financial capacity to carry out its proposed program of projects. Grantees generally have three basic sources of local funding: a perpetual or permanent local tax (e.g., a sales tax, income tax, or property tax); a limited or "sunset" source of funding that expires at some future date; and/or annual appropriations from local, regional, and state governments. FTA does not require a dedicated funding source.

All of the local share must come from non-DOT sources, except for Federal Lands Highway Program funds. SAFETEA-LU permits the use of the following as local share: cash (or in-kind contribution); non-farebox revenues from transit operations (e.g., advertising and concession revenues); amounts received under a service contract with a state, local or private social service agency or organization; undistributed cash surpluses, replacement or depreciation cash funds, reserves available in cash or new capital; in-kind contributions; revenue bond proceeds (capital only); transportation development (toll) credits; program income generated from an earlier grant; and Temporary Assistance for Needy Families (TANF) funds and other non-DOT Federal funds, such as Community Development Block Grant funds, if authorized by the originating program to be used for transportation. No FTA program funds can be used as a source of local match for other FTA programs, even when used to contract for service. In-kind contributions are eligible as long as the value of each is documented and supported, represents a cost which would otherwise be eligible under the program, and is included in the net project costs in the project budget.

The grantee must ensure each subrecipient has or will have the required local match for the project and has or will have sufficient funds to operate and maintain the vehicles and equipment purchased under the project. Revenue sources should be stable and reliable enough to meet future annual operating and routine capital costs. The grantee must obtain and maintain sufficient documentation from each subrecipient to support its certification to FTA. The grantee must ensure that subrecipients use only eligible funds as local match. Generally, grantees require applicants to list the sources of funding that will be applied to the project. For capital items, such as vehicle purchases or facility construction, a grantee may request a three to five year financial plan.

REFERENCE

Annual Certifications and Assurances

49 USC 5307(d)(1)(a)

FTA Circular 7008.1A

FTA Master Agreement, Section 5

FTA Circular 5010.1D, Ch. VI, Section 4

FTA C 9030.1D, Ch. III, Sections 11 and 12, Ch. IV, Section 8.a(2)

FTA C 9040.1F, Ch. III, Sections 1.a and 3

FTA C 9070.1F, Ch. III, Sections 1 and 9

FTA C 9300.1B, Ch. II, Sections 7 and 9.b

FTA C 9050.1, Ch. III, Section 12

FTA C 9045.1, Ch. III, Section 12

SOURCES OF INFORMATION

Annual audit reports, budgets, local or state legislation, multi-year financial plans, National Transit Database (NTD) reports, and the transportation improvement program (TIP) for information on local funding sources will be reviewed. The sections 5316 and 5317 project management plan(s), application package(s) and standard subrecipient agreement(s) will be reviewed for information on how the grantee ensures that subrecipients have the necessary local match and sufficient funds to operate and maintain capital projects. Site visit checklists or other monitoring materials will be reviewed. On site, the reviewer will discuss how the grantee considers local match in the evaluation process and ensures that subrecipients have the necessary local match and funds to operate and maintain capital projects.

DETERMINATION

The grantee is deficient if it cannot document that the funds used for local match are eligible. The grantee is deficient if the value of non-cash share is not documented, the non-cash share represents a cost which is not eligible under the program, or the non-cash share is not included in the net project costs in the project budget.

The grantee is deficient if it does not ensure that subrecipients have the required local match and sufficient operating funds to operate and maintain the capital project. The grantee is deficient if it does not ensure that the value of non-cash share is documented and supported, the non-cash share represents a cost which would otherwise be eligible under the program, or the non-cash share is included in the net project costs in the project budget. The grantee is deficient if it does not ensure that only eligible funds are used as local match.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office documentation that the funds it uses for local match are eligible. If ineligible funds have been used as local match, discuss with the FTA regional office.

The grantee will be directed to submit to the FTA regional office procedures for obtaining information from subrecipients on the sources and amounts of local match available for projects and the anticipated sources and amounts of operating revenue and subsidies for continued operation and maintenance of equipment or facilities.

The grantee will be directed submit to the FTA regional office procedures for ensuring that the value of non-cash share is documented, the non-cash share represents a cost which would otherwise be eligible under the program, and the non-cash share is included in the net project costs in the project budget.

The grantee will be directed to submit to the FTA regional office procedures for ensuring that only eligible funds are used as local match.

4. *Is there any pending legislation or "sunset" provision in existing legislation that could affect the grantee's sources of state or local funding or financial capacity? If yes, please identify.*
5. *In the next few years, does the grantee anticipate any significant changes in the levels of local funding for transit, the sources of local funding for transit, or the current transit service levels? If yes, please describe.*
6. *Does the grantee have a financial plan that projects revenue and expenses for the next three to five years?*
7. *Has the grantee had unfunded operating or capital deficits or liabilities? If so, what are the amounts, nature, and forecast of these deficits/liabilities?*

EXPLANATION

A grantee's financial condition, future financial capacity, and ability to match FTA funds could be impacted greatly if one of its sources of non-FTA funding is affected by pending legislation or "sunset" provisions in current legislation. Grantees should make capital investment plans on the basis of current and projected capability to maintain and operate current assets, and to operate and maintain new assets. Grantees should have adequate financial capacity to provide at least the same level of service,

for at least one replacement cycle of such assets or 20 years, as appropriate.

Financial condition is reflected in working capital levels, current assets versus liabilities, capital reserves, and the present status of depreciation accounts. Grantees shall have multi-year financial plans (three to five years) that project operating and capital revenues and expenses. The financial plans should indicate adequate revenues to maintain and operate the existing system and to complete the annual program of projects. Revenue sources must be stable and reliable enough to meet future capital and operating costs. Any sign of major decreases in service levels or operations must be explained. If grantees are involved in a New Starts project, the financial plan must have a 20-year horizon.

Financial capacity considers the nature of funds matched to support operating deficits and capital programs, along with forecasted changes in fare and non-fare revenues. If a grantee is forecasting new funding sources, strategies for ensuring their availability must be identified. Unfunded capital or operating deficits could indicate a grantee's lack of financial capacity to fund the projects programmed in the TIP, and/or adequately maintain and operate FTA-funded assets at the current level of service.

REFERENCE

[49 USC 5307\(d\)\(1\)\(a\)](#)
[FTA Circular 7008.1A](#)
[FTA Master Agreement](#), Section 5
[FTA Circular 5010.1D](#), Ch. VI, Section 4

SOURCES OF INFORMATION

Annual audit reports, budgets, local or state legislation, multi-year financial plans, NTD reports, and the TIP information on local funding sources will be reviewed. The projected grant activity, current year's budget, including capital and operating expenses, and multi-year financial projections will be reviewed for financial condition and capacity. The grantee will be asked about pending legislation or "sunset" provisions in current legislation.

DETERMINATION

The grantee is deficient if local sources of revenue are not sufficient. If there is pending legislation that could affect local funding sources negatively, the grantee may be deficient, depending on its ability to continue to provide local match for Federal funding or to maintain FTA funded assets. Where the source of local funding is dependent upon an election, action by local governmental body, or other event, a determination may need to await such an event.

The grantee is deficient if it does not have a multi-year financial plan.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office a plan for responding to a change in financial circumstances caused by a "sunset" provision in current local funding legislation or pending legislation that will affect local funding negatively.

The grantee will be directed to submit to the FTA regional office a plan for reducing expenditures, increasing revenues, or a combination of both to compensate for a budget shortfall.

The grantee will be directed to develop and submit a multi-year financial plan to the FTA regional office.

Part B. Eligible Expenditures

- Does the service supported with FTA operating and capital assistance meet the definition of "public transportation?" Are ineligible activities incidental to the delivery of public transportation?*

EXPLANATION

FTA defines public transportation as transportation by a conveyance that provides regular and continuing general or special transportation to the public, but does not include sightseeing, school bus, charter or intercity bus transportation or intercity passenger and intercity rail transportation provided by AMTRAK. Intercity bus services are eligible under Section 5311(f) and intercity bus stations and terminals are eligible under Section 5309 as part of a joint development project. Intercity bus and intercity rail stations are eligible under Section 5307. A grantee may not use FTA operating assistance to support ineligible activities. A grantee may use FTA-funded equipment and facilities to support incidental activities that do not detract from the provision of public transportation. Unless required by regulation, classes of people, including residents of an area, cannot be given preferential treatment for service.

REFERENCE

[49 USC 5302\(a\)\(10\)](#)
[FTA C 5010.1D](#), Ch. IV, Section 3.e(3)
[FTA C 9030.1D](#), Ch. I, Section 5 and Ch. III, Sections 5, 6, 7, 8 and 9
[FTA C 9300.1B](#), Ch. I, Section 5 and Ch. III, Section 4
[FTA C 9040.1F](#), Ch. VIII

SOURCES OF INFORMATION

The grantee's marketing materials will be reviewed and discussed on site.

DETERMINATION

The grantee is deficient if it uses FTA operating assistance to support ineligible services, if incidental use of FTA-funded equipment or facilities detracts from public transportation service, or if the grantee gives preferential treatment to classes of people not required by regulation.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to cease using FTA operating assistance to support ineligible services. Work with the regional office to determine if the grantee owes FTA funds back or if draws need to be recalculated.

The grantee will be directed to submit to the FTA regional office implemented controls to ensure that the incidental service does not interfere with the provision of public transportation.

The grantee will be directed to provide evidence to the FTA regional office that it has lifted restrictions on access to public transportation service.

9. *Does the grantee receive Section 5307, 5316 or 5317 operating assistance? If yes, is the amount eligible for operating assistance calculated appropriately?*

EXPLANATION

Section 5307 operating assistance is available to all grantees in urbanized areas (UZAs) with populations under 200,000. Section 5307 operating assistance is also provided in UZAs with populations over 200,000 under the following circumstances:

- The UZA had a population of less than 200,000, as determined by the 1990 decennial census of population. The UZA may expend for operating expenses not more than 50 percent of the amount apportioned to it in FY2002.
- A portion of the UZA was a separate UZA with a population of less than 200,000, as determined by the 1990 decennial census of population. The UZA may expend for operating expenses not more than 50 percent of the amount apportioned to it in FY2002.
- The area was not designated as a UZA, as determined by the 1990 decennial census of population. Such an area may expend for operating expenses not more than 50 percent of the amount apportioned to it in FY2003.
- A portion of the area was not designated as a UZA, as determined by the 1990 decennial census. The portion of the area shall receive for operating expenses not less than 50 percent of the amount the portion of the area received under section 5311 in FY2002.

Section 5316 and 5317 operating assistance is available to all UZAs. It is the responsibility of the grantee to calculate net eligible operating costs properly. The amount of funds requested for operating assistance must be no more than half the operating expenses, after fare revenues are credited and ineligible costs (such as costs for charter, school bus, sightseeing service and lobbying activities) are deducted to arrive at the net project cost. Interest and other financial costs associated with borrowing to provide working capital for the payment of current operating expenses are eligible operating costs. FTA C 9030.1D Appendix C provides a worksheet for calculating eligible operating expenses.

The FTA share of any operating assistance project shall not exceed the lesser of: a) the local match, b) the currently available apportionment to the urbanized area plus any carryover funds available from past years, or c) 50 percent of the net project cost incurred on an accrual basis in the provision of transit services during the period. The remainder must be paid with the grantee's local share.

Grantees may also use FTA funding at the 80/20 match level for ADA paratransit, maintenance, and capital cost of contracting. These funds could increase the total amount of FTA funds the grantee could be eligible to request, but would reduce the net project cost eligible for 50/50 operating assistance.

REFERENCE

[FTA C 9030.1D](#), Ch. III, Sections 6.m, 6.o, 7.d and 8, Appendices C and E

[FTA C 9040.1F](#), Ch. III, Sections 2.e and 3.b, Appendix G

[FTA C 9050.1](#), Ch. III, Section 12

[FTA C 9045.1](#), Ch. III, Section 12

SOURCES OF INFORMATION

Detailed operating budgets for the past three years showing operating expenses eligible will be reviewed for operating assistance funding. Discussions on site will include how the amount eligible for operating assistance is calculated.

DETERMINATION

The grantee is deficient if the documentation is lacking or shows ineligible project costs included in the calculation of operating expenses.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office procedures for calculating net eligible project costs for operating assistance properly.

The grantee will be directed to work with the FTA regional office for reimbursement, if an inappropriate payment or an overpayment of operating assistance has occurred.

10. *Is the grantee using no more than 10 percent of the Section 5307 apportionment for the capital cost of operating ADA complementary paratransit?*

EXPLANATION

TEA-21 expanded the definition of an eligible capital project to include the operating cost of ADA complementary paratransit service, under certain limitations. The 80/20 Federal/local funding ratio is applicable for such projects as long as the grantee is in compliance with ADA requirements. Capital projects can include the provision of non fixed route paratransit transportation services in accordance with Section 223 of the ADA Act of 1990 for amounts not to exceed 10 percent of the annual Section 5307 or 5311 apportionment. Costs associated with non-ADA paratransit are not eligible for this funding option. For large urbanized areas with more than one grantee, the MPO is responsible for working with operators to allocate the 10 percent of the area's apportionment that may be used for ADA paratransit purposes. For the Section 5307 governor's apportionment and Section 5311 funds, the state is responsible for allocating the 10 percent of the state's apportionment that may be used for ADA paratransit purposes.

Note that grantees are not limited to 10 percent of their apportionments if they choose to use another mechanism (e.g., capital cost of contracting) to pay for ADA services. Grantees may use a combination of funding mechanisms (e.g., ADA operating, preventive maintenance, and/or capital cost of contracting) provided that they do not double count costs.

REFERENCE

[FTA C 9030.1D](#), Ch. III, Section 6.m
[FTA C 9040.1F](#), Ch. III, Section 2.e(2)(u)

SOURCES OF INFORMATION

Grant budgets will be reviewed in TEAM-Web, comparing the amount used for the capital cost of operating ADA complementary paratransit (FPC 08) to the annual apportionments. The reviewer will discuss on site.

DETERMINATION

The grantee is deficient if it uses more than 10 percent of total annual apportionment funds as paratransit service expenditures eligible as a capital project.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to cease using more than 10 percent of the Section 5307 apportionment on the capital cost of operating ADA complementary paratransit. The grantee will be directed to submit to the FTA regional office an accounting of overcharges

and a plan for reallocating the overcharges to eligible expenditures.

11. *If the grantee is the designated recipient of Section 5316 and 5317 funds, is it using no more than 10 percent of the apportionment of funds for administration?*

EXPLANATION

Up to 10 percent of the grantee's total Section 5316 and 5317 apportionments may be used as the Federal share of program administration costs (FPC 06). Program administration costs may be funded at 100 percent Federal share. Program administrative costs cover the costs incurred by the grantee in implementing and managing the entire Section 5316 and 5317 programs, including previously funded projects. Administrative funds are not specific to one grant; they may pay the ongoing administrative costs of previous projects. Grantees may exceed the ceiling in a year if it has unused administrative funds from prior years. Carryover funds must be within their period of availability (year of apportionment plus two). Program administrative costs may include, but are not limited to, general administrative and overhead costs, staff salaries, office supplies, development of specifications for vehicles and equipment, and support for coordinated planning and competitive selection requirements.

REFERENCE

[FTA C 9050.1](#), Ch. III, Section 10
[FTA C 9045.1](#), Ch. III, Section 10

SOURCES OF INFORMATION

Section 5316 and 5317 apportionments for the past three years and programs of projects and budgets will be reviewed in TEAM-Web to determine the amount of Section 5316 and 5317 funds programmed for administration. The percentage of the Section 5316 and 5317 apportionments programmed for administration will be calculated for each of the last three years.

DETERMINATION

The grantee is deficient if it has budgeted more than 10 percent of the total Section 5316 or 5317 apportionment on administration costs.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office documentation that it has adjusted the amount of funds used for administration to within the 10 percent limit for active grants.

12. *Are indirect costs being charged to grants? If yes, does the grantee or subrecipient have a cost allocation plan to support indirect administrative costs related to a grant program? If yes, what agency approved the plan? Has the grantee or subrecipient been following the plan?*

EXPLANATION

Under Federally funded grant programs, recipients may incur both direct and indirect costs. A cost allocation plan is required to support the distribution of indirect costs related to the grant program, and must be approved by FTA or by the cognizant Federal agency. Cost allocations often are found in municipal systems where overhead/administrative charges are allocated to the transit system. Any and all such charges need to be addressed in the cost allocation plan. In addition to the initial approval by its cognizant agency, a grantee must update the plan annually, and resubmit it for approval in any of the following circumstances:

- The grantee has made a change in its accounting system, thereby affecting the previously approved cost allocation plan/indirect cost rate and its basis of application.
- The grantee's proposed cost allocation plan/indirect cost rate exceeds the amounts approved previously by more than 20 percent (e.g., if the previously approved rate is 10 percent, approval is needed once the rate exceeds 12 percent).
- The grantee changes the cost allocation plan/indirect cost rate proposal methodology.

REFERENCE

[49 CFR 18.3](#)
[OMB C A-87](#)
[OMB C A-122](#)
[FTA C 5010.1D](#), Ch. VI, Section 6, and Appendix E
[FTA C 9050.1](#), Ch. VI, Section 11
[FTA C 9045.1](#), Ch. VI, Section 11

SOURCES OF INFORMATION

The regional office may have a copy of the grantee's FTA approved cost allocation plan. Grant files, correspondence and the A-133 annual audit will be reviewed regarding the proper implementation of a cost allocation plan. FFRs in TEAM-Web will be reviewed to see if the grantee has indicated whether it is charging indirect costs to the grant and will be discussed on site with grantee staff.

The grantee's process for ensuring that subrecipients that charge indirect costs to FTA grants have an approved indirect cost allocation plan will be discussed. The reviewer will inquire whether

subrecipients charge indirect administrative costs and, if so, determine if approved cost allocation plans exist. Federal or grantee approved plans will be approved.

DETERMINATION

The grantee is deficient if it has not submitted an implemented or changed cost allocation plan to FTA or the cognizant agency for approval. The grantee is deficient if it has not taken action with regard to an audit finding relating to the cost allocation plan.

The grantee is deficient if it does not ensure that subrecipients have approved indirect cost allocation plans and follow the plans.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit procedures to the FTA regional office for obtaining approval of the cost allocation plan as required and to obtain FTA or cognizant agency approval of the cost allocation plan or to change the administration of its program.

The grantee will be directed to submit procedures to the FTA regional office for ensuring that subrecipients have approved and follow cost allocation plans.

Part C. Funds Management

13. *Do the grantee's financial management systems enable it to track grant balances accurately? Are there any discrepancies between TEAM-Web and grantee grant balances?*
14. *How does the grantee ensure subrecipients have the financial management systems to carry out the programs and to receive and disburse Federal funds?*

EXPLANATION

The Common Rule requires that a grantee's financial management systems meet standards for financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management. The systems must enable the grantee to track grant balances, request drawdowns of Federal funds, report financial data to FTA in Federal financial reports (FFR), and close out grants. For states, the Common Rule requires that the state have fiscal control and accounting procedures sufficient to:

- Permit preparation of required reports

- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes

Some grantees have not effectively tracked grant activity, particularly for older grants. In some cases, a grantee's grant balances may not reconcile with those in TEAM-Web. Discrepancies in grant balances have delayed grant close outs.

Direct access to TEAM-Web may help the grantee improve the tracking of grant balances. Both the grantee's program and accounting staffs should have TEAM-Web access. Frequent reconciling of internal grant balances with those in TEAM-Web helps the grantee identify and address any discrepancies quickly and prevent discrepancies from delaying grant close outs.

The grantee is responsible for ensuring that subrecipients have adequate financial management systems for expending and accounting for FTA funds properly. The grantee is not required to monitor the financial management systems of subrecipients that do not receive Federal cash (e.g., subrecipients for which the grantee procures vehicles).

Some grantees require applicants, especially first-time applicants, to describe their accounting systems or may perform a pre-award review of accounting systems. Other grantees require subrecipients to maintain separate accounting records for projects. Grantees review financial audits and are required to obtain and review A-133 audit (see question 18). In addition to an audit, some grantees require subrecipients to have their auditors certify year-end financial statements for their transit operations.

REFERENCE
[49 CFR 18.20](#)
[FTA C 5010.1D](#), Ch. VI

SOURCES OF INFORMATION

The grantee's financial management systems and grant accounting will be discussed with regional office staff. The regional office may know when a grantee's grant balances differ through review of FFRs and processing of ECHO rejections. TEAM-Web current grant balances will be reviewed and discussed on site.

The project management plan, subrecipient grant applications, and monitoring tools, such as a site visit checklist, will be reviewed for a discussion of fiscal capability on site with staff.

DETERMINATION

The grantee is deficient if its financial management systems do not allow it to track grant balances accurately.

The grantee is deficient if it does not ensure that subrecipients have the financial management systems to carry out the programs and to receive and disburse Federal funds.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office a plan for reconciling the differences between the balances in TEAM-Web and its accounting system and to identify and correct the procedures that allow differences to develop.

The grantee will be directed to submit to the FTA regional office procedures for ensuring that subrecipients can account for Federal funds.

15. *What is the process for receiving and disbursing FTA funds? Do records support ECHO requests and the disbursement of funds? Are draw requests signed by an authorized official other than the individual who requests the payment? Are funds disbursed within three business days of receipt?*

16. *Are only eligible expenses charged to grants?*

EXPLANATION

Grantees request Federal funds through the U.S Department of Treasury Electronic Clearinghouse Operation (ECHO). The grantee's records must support ECHO requests. The information should be traced back to an invoice for goods or services or timesheets, and be supported by information from the grantee's accounting system. Either the individual who is the registered ECHO approving official or a person to whom this person has delegated the authority in writing must approve each ECHO request. The approving official must not draw the funds.

The grantee may initiate draws only when cash is needed for immediate reimbursement and must disburse the funds within three business days. Disbursement means that the grantee no longer controls the money (e.g., a check has been sent to a vendor). If the funds are not disbursed within three business days, for non-state grantees FTA can charge interest beginning on day four. In most cases, grantees request funds on a reimbursement basis (after expenses have been incurred and paid). In

some cases (e.g., large bus procurements), grantees request funds prior to issuing a check. This procedure is acceptable as long as the funds are disbursed within three business days.

Grantees may only request funds for expenses that are eligible under the grant. For example, a grant project for preventive maintenance entitles a grantee to draw funds for 80 percent of the preventive maintenance expenses accrued at the time funds are drawn. FTA defines preventive maintenance expenses as all maintenance expenses (i.e., those items that meet the NTD definition of maintenance expenses). Fuel is not an eligible preventive maintenance expense. Similarly, funds in a grant project to purchase vehicles may not be used to purchase bus shelters.

REFERENCE

[49 CFR 18.21](#)

[FTA Master Agreement](#), Section 9.b

[FTA C 5010.1D](#), Ch. VI, Section 9

SOURCES OF INFORMATION

Review a sample of ECHO draws to ensure that documentation supports the draws, an authorized official approved the draw, and funds are disbursed within three business days. In cases where FTA funds were requested in advance of payment to a vendor or contractor, ensure that the check was mailed within three business days. Do not rely on the date of the check. A grantee may hold onto a check several days before mailing it. Ensure that the approving official did not draw the funds. Ensure that the approving official printed on the ECHO payment request form approves the draw or has delegated that authority in writing to the person who approves the draw. Ensure that the purpose of the draw is eligible under the grant. Check to ensure that indirect costs are charged at the current rate, if applicable. Check the annual financial audit to see if there are ECHO process findings.

DETERMINATION

The grantee is deficient if it does not maintain documentation adequate to support the ECHO draws.

The grantee is deficient if it held FTA funds for four or more business days after FTA funds were received. The grantee is deficient if it drew more funds than were allowed.

The grantee is deficient if an authorized official does not approve the ECHO draws or the approving official draws the funds.

The grantee is deficient if funds were drawn down for expenses not eligible under the grant.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office procedures for documenting ECHO draws. In certain cases, the regional office may require the grantee to submit ECHO requests for prior approval.

The grantee will be directed to submit to the FTA regional office procedures for disbursing FTA funds within three business days and to report to FTA until further notice on the number of days by which funds were disbursed.

The grantee will be directed to work with the FTA regional office to reimburse the Federal Treasury if interest is owed.

The grantee will be directed to submit to the FTA regional office a process documenting that an authorized official approves each ECHO request. The grantee will be directed to update the authorizing official in ECHO or have the authorizing official delegate authority to the person approving the requests. The grantee will be directed to have someone other than the approving official request ECHO funds.

The grantee will be directed to document and work with the FTA regional office to reimburse FTA for ineligible expenses charged to grants.

Part D. Audits

17. Have annual single audits been conducted? Has the grantee submitted the single audit reporting form (SF-SAC) and, if there are findings related to the FTA programs, the single audit report and the management letter comments to FTA? Are there unresolved audit issues relating to FTA programs?

EXPLANATION

Non-federal entities that expend \$500,000 or more in Federal awards in a year are required to have conducted an independent single audit in accordance with OMB Circular A-133. In the case of independent transit authorities, the audit will cover all aspects of that authority. Where the transit provider is a municipal department or part of a larger governmental organization, the audit may cover the entire organization, including the Federal funds used for transit.

Depending upon the results of the single audit, grantees are required to take one of the following actions:

- If the single audit contained FTA program findings, a copy of the entire audit report, management letter comments, and the single audit reporting form (SF-SAC) must be submitted to the regional office.
- If the single audit contained findings related to a DOT-wide program and FTA is the grantee's point-of-contact for all DOT DBE program issues, then the entire audit report, management letter comments, and SF-SAC must be submitted to the regional office.
- If the annual single audit report contains no FTA or DOT program findings, a copy of only the SF-SAC must be submitted to the regional office.

Single audit reports are to be issued within the earlier of 30 days after receipt or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant agency.

The grantee must resolve single audit findings promptly.

REFERENCE

[Single Audit Act Amendment of 1996](#)
[49 CFR 18.26](#)
[FTA C 5010.1D](#), Ch. VI, Section 8
[Dear Colleague Letter, C-05-04, June 17, 2004](#)

SOURCES OF INFORMATION

OTrak will be reviewed for information on A-133 audits and findings under its reporting function. Audit reports, management letter comments, and SF-SACs also will be reviewed. If there are findings related to FTA programs, the audits and management letter comments will be reviewed.

The Federal Audit Clearinghouse can be accessed at <http://harvester.census.gov/sac/>. This site provides links to single audit reference information and allows the user to retrieve single audit data.

DETERMINATION

The grantee is deficient if it meets the threshold for a single audit and has not had one conducted.

The grantee is deficient if it has not submitted its single audit reports, management letter comments, or SF-SACs to the regional office.

The grantee is deficient if it has not taken appropriate action to resolve audit issues promptly.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to have annual single audits conducted. The grantee will be directed to

submit single audits, management letter comments, and/or SF-SACs to the FTA regional office. The grantee will be directed to submit a schedule for resolving single audit findings and to submit the procedures for resolving the findings to the FTA regional office.

18. *How does the grantee ensure that single audits of subrecipients are conducted and findings resolved?*

EXPLANATION

The grantee must ensure that subrecipients that expend \$500,000 or more in Federal awards in a year have annual independent audits conducted in accordance with OMB Circular A-133. Items purchased by the grantee for a subrecipient count towards a subrecipient's single audit threshold. FTA has not required an annual financial audit of a subrecipient when assistance is provided solely in the form of capital equipment procedures directly by the state. Single audits are an eligible grant expense only if the subrecipient meets the threshold. Financial audits are an eligible grant expense. The grantee must ensure that subrecipients resolve audit findings related to FTA funded programs.

REFERENCE

[Single Audit Act Amendment of 1996](#)
[49 CFR 18.26](#)
[FTA C 5010.1D](#), Ch. VI, Section 8
[FTA C 9070.1F](#), Ch VI, Section 14
[FTA C 9050.1](#), Ch VI, Section 13
[FTA C 9045.1](#), Ch VI, Section 13
[Dear Colleague Letter, C-05-04, June 17, 2004](#)

SOURCES OF INFORMATION

The project/state management plan will be reviewed for a discussion of the grantee's process for obtaining and reviewing audits and monitoring the resolution of findings related to FTA funded programs. Subrecipients' single audits and documentation of follow-up correspondence and activities will be reviewed.

DETERMINATION

The grantee is deficient if it does not review audits and ensure that subrecipients resolve audit findings related to the FTA funded programs.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit to the FTA regional office procedures for obtaining and reviewing subrecipients' single audits and monitoring and tracking the resolution of audit findings.

19. *Since the last review, have any Government Accountability Office (GAO) or Office of Inspector General (OIG) reports had findings related to FTA program requirements? If yes, have these findings been resolved?*

EXPLANATION

The GAO and OIG periodically conduct independent audits. Audits may be of a grantee, but often are programmatic audits addressing a national issue (e.g., spare ratios, extended warranties) where the grantee may have had a specific part of its operation audited. Audit findings should be resolved within one year.

REFERENCE

None

SOURCES OF INFORMATION

Available GAO and OIG audits will be reviewed. During the site visit, it will be determined if proper follow-up actions have been taken to resolve findings.

DETERMINATION

The grantee is deficient if it has not taken appropriate action to resolve GAO or OIG audit findings promptly.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit evidence to the FTA regional office of the resolution of outstanding GAO or OIG audit findings.

20. *Since the last review, have any internal, state or local governmental reviews or audits covered the grantee's transit program? If yes, are all findings related to FTA program requirements resolved?*

EXPLANATION

In addition to the external audits, some transit authorities and local or state governments have internal auditors. Also, as most states provide transit assistance, the state may conduct audits or performance reviews of grantees. These audits may address FTA requirements.

REFERENCE

None

SOURCES OF INFORMATION

Internal audit reports that address FTA requirements will be reviewed and discussed during the site visit with the internal auditor or other staff.

DETERMINATION

The grantee is deficient if it has not taken appropriate action to resolve internal, state, or local audit findings related to FTA requirements promptly.

SUGGESTED CORRECTIVE ACTION

The grantee will be directed to submit evidence to the FTA regional office of the resolution of open audit findings. These findings may relate to other sections of the triennial review.