

1. FINANCIAL MANAGEMENT – ENHANCED REVIEW MODULE

PURPOSE OF THIS REVIEW AREA

The recipient must have financial policies and procedures; an organizational structure that defines, assigns and delegates fiduciary authority; and financial management systems in place to manage, match, and charge only allowable cost to the award. The recipient must conduct required Single Audits and provide financial oversight of subrecipients.

USE OF THIS MODULE

This enhanced review module (ERM) questionnaire presents recommended questions for an enhanced review of financial management. Based on the scope of the approved ERM, all or a selection of the questions of this module will be conducted. The actual questions asked and the items sampled and observations made will be determined during the scoping meeting. The Federal Transit Administration (FTA) regional office and/or the Office of Transit Safety and Oversight may ask the reviewer to develop a unique scope of work for the ERM. Additional questions may be asked and additional sampling and observations may be performed as directed by FTA. The scope, questionnaire, sampling, and observations will be subject to final review and approval by the respective regional FTA office and the Office of Transit Safety and Oversight.

QUESTIONS TO BE EXAMINED

1. Does the recipient have policies and procedures in place for managing federal awards, establishing internal controls, ensuring timely distribution of funds, and determining allowability of costs?
2. Does the recipient's organizational structure clearly define, assign, and delegate appropriate authority for all financial duties and require that those duties are 1) carried out by properly qualified personnel 2) segregated within the organization and 3) subject to review to ensure that adequate internal checks and balances exist?
3. Does the recipient's financial management system allow it to prepare reports and trace funds adequately to establish compliance with award terms and conditions?
4. Does the recipient correctly draw down and track the use of Federal funds for eligible expenses and disburse advance payment funds within three business days?

INFORMATION NEEDED FROM RECIPIENT

Pre-site Visit Request

- Financial statements or comprehensive annual financial reports for the past three years
- Report of amounts and sources of local match for the current year as well as the last three years and next three years
- Financial policies and procedures that includes determining the allowability of cost and timely distribution of funds
- Cash Management Improvement Act of 1990 (CMIA) agreements (states only)
- Organizational chart for organization as a whole and the financial office(s)
- Position and job descriptions for award related personnel
- Resumes of award-related personnel with financial duties
- Sample record from financial system identifying the following elements: FTA awards with the Catalog of Federal Domestic Assistance (CFDA) title and number, FAIN (Federal Award Identification Number) and year, name of the awarding federal agency, and name of the pass-through entity, if any

- Sample financial record including Federal award information, amounts awarded, authorized, encumbered and expended; including income earned
- Most recent variance report(s) demonstrating that budget/actual comparisons are completed for awards
- Financial plan projecting revenues and expenses for the next three years (or longer), including the assumptions and notes to the financial plan
- Operating and capital budgets for the past three years
- Listing of local or state legislation, with sunset provisions, impacting transit funding
- State/Transportation Improvement Program (S/TIP)
- Annual budget to actual reconciliation reports for the review period

Recipient Follow-up

- Total Federal (non-FTA) funds expended for the past three years, by year
- Documentation of progress towards closing open Single Audit findings
- Approval notification of the Cost Allocation Plan (CAP) or Indirect Cost Rate Proposal (ICRP)
- Approval notification of the central services plan
- Approved CAP or ICRP
- Board meeting minutes for the review period

FMERM1. Does the recipient have policies and procedures in place for managing federal awards, establishing internal controls, ensuring timely distribution of funds, and determining allowability of costs?

BASIC REQUIREMENT

Recipients must have financial policies and procedures to ensure effective financial management of FTA awards and establish a system of internal controls to safeguard against waste, loss, and misuse of federal funds.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Financial Reporting. Recipients must have adequate controls to ensure that financial reports (internal and external) are accurate, comprehensive, and timely in the information they present. Reports must be verifiable and adequately supported by records from financial systems. Recipients should establish internal control procedures to ensure that accounting records and information are maintained in a safe, secure environment to mitigate financial irregularities in reports to be submitted to external agencies. In addition, refer to question F1 of the baseline review.

Recognition and Processing of Payables. Recipients may only request funds for expenses that are eligible under the award. A recipient's financial policies and procedures should detail the accounts payable process from initiation to final closeout. The procedures should include controls to ensure that activities are identified, assigned to the correct general ledger or award accounts, authorized, and processed accurately, completely, and in a timely manner. In addition, refer to question F4 of the baseline review. In addition, refer to question F1 of the baseline review.

Periodic Accounting Controls. A recipient's financial policies and procedures should detail the internal controls in place to facilitate monthly closeout of the accounts payable subsidiary ledger. The procedures should delineate the personnel responsible, the steps followed (identifying allowable costs, identifying amounts not recorded), and approvals necessary to complete the closeout process. Discrepancies noted with the general ledger and other financial records should be adequately investigated and reconciled prior to closing the period. In addition, refer to question F1 of the baseline review.

Disbursement and Exception Processing. Refer to question F4 in the baseline review.

Farebox Revenue Process. A recipient's financial policies and procedures should ensure that controls are adequate to ensure that farebox revenues are collected and processed in an accountable manner that safeguards assets.

Award Records and Reporting. It is incumbent upon the recipient to have internal controls over the award management systems that monitor award expenditure by line item to verify that they are allowable under the award agreement. When a recipient requests funds from FTA, the request is made for planning, capital, or operating funds. The Transit Award Management System (TrAMS) does not track drawdowns by Activity Line Item (ALI) so the recipient must have a process in place to maintain this information, monitor expenses, and know where FTA approval may be needed. In addition, refer to questions F1, F4, and TC-AM2 in the baseline review.

Award Closeout. Refer to questions F1 and TC-AM5 in the baseline review.

INDICATORS OF COMPLIANCE

Financial Reporting

- a. *What are the procedures and controls whereby financial results and key statistics are summarized from the general ledger and associated records, and compiled for internal and external reporting purposes, i.e., Single Audit and National Transit Database (NTD)?*

Review Response

- b. *What types of reclassifications and summaries are made for financial statement purposes?*

Review Response

- c. *What additional financial reporting does the recipient submit to FTA?*

Review Response

- d. *What financial reporting is required by other oversight agencies, and how does this impact presentation of financial information?*

Review Response

Recognition and Processing of Payables

- e. *Where are vendors instructed to mail invoices? How does the recipient verify receipt of the goods and/or services invoiced?*

Review Response

- f. *How is vendor compliance with the terms of the purchase order verified? What verification is done of the rates, terms, and extensions on invoices?*

Review Response

- g. *Who is responsible for the coding of account numbers on invoices?*
- i. *What controls are in place to ensure that costs coded to FTA awards/projects are reasonable, allowable, and allocable?*
 - ii. *What process ensures that each invoice is charged to the correct expense or capital project account in the system?*
 - iii. *How are encumbrances relieved?*

Review Response

- h. *What approvals are required to process invoices for payment? By whom? How does this process differ for capital purchases versus operating expenses?*

Review Response

Periodic Accounting Controls

- i. *What controls are in place related to accounts payable cut-off at the end of the month?*

Review Response

- j. *Who is responsible for reconciling accounts payable detail to the general ledger at the end of the month?*

Review Response

- k. *How are the month-end accruals identified and recorded?*

Review Response

- l. *How does the recipient search for unrecorded payables (e.g., periodic review - purchase orders)?*

Review Response

Disbursement and Exception Processing

- m. *How is the decision made regarding what and when to pay certain invoices? Whose approval is*

needed for the disbursement of funds?

Review Response

- n. Who has access to blank checks? How are blank checks accounted for and retained as evidence?*

Review Response

- o. What controls exist over the check disbursement process?*

i. Who initiates check runs?

ii. By whom are check runs reviewed?

iii. Who reviews and signs checks?

Review Response

- p. If the recipient makes disbursements by electronic transfers, what controls exist over the electronic payments process? Who reviews and approves electronic payments?*

Review Response

- q. What entries are made to reflect disbursement?*

Review Response

- r. When are manual accounts payables and disbursements allowed?*

i. Are disbursements under these situations made in the form of a handwritten check or a check from the system?

ii. Whose approvals are required?

iii. How are these activities posted to the payables records and general ledger?

Review Response

Farebox Revenue Process

- s. How does the recipient ensure that cash is not handled by drivers/operators?*

- i. Under what circumstances would cash be handled by drivers/operators?*
- ii. What procedures are in place to control cash handled by drivers/operators?*

Review Response

- t. How often is cash collected from fareboxes?*
 - i. How is cash processed and counted once collected from the fareboxes?*
 - ii. Is cash counting performed internally or by an external entity?*
 - iii. If internally, what controls are in place to ensure all cash is accounted for?*
 - iv. Are employees who handle cash properly bonded?*
 - v. If externally, how has the recipient satisfied itself that controls at the external service organization are in place and functioning as they should?*
 - vi. How often does the recipient reevaluate controls at the external service organization?*

Review Response

- u. Who is responsible for reconciling cash counted to the farebox report? How often is this performed?*

Review Response

- v. Once counted, what is the process for transporting cash to the bank?*
 - i. Who is responsible for reconciling the deposit amount per the bank to the cash count?*
 - ii. How often is this done?*
 - iii. Is an independent review of bank reconciliations conducted?*

Review Response

- w. Who is responsible for recording cash in the general ledger?*

Review Response

Award Records and Reporting

x. *What is the process for determining whether award expenditures are allowable before they are incurred?*

i. *What is the process for reversing charges incorrectly posted against awards?*

Review Response

y. *What are the procedures for generation of Federal Financial Reports (FFRs)?*

Review Response

z. *What are the procedures for reconciliation and review of FFRs?*

Review Response

aa. *How are adjustments between detailed records and reports posted and documented?*

Review Response

Award Closeout

bb. *What is the policy for closing out awards?*

Review Response

cc. *How does the recipient maintain award documentation/correspondence with FTA regarding closeout of awards?*

Review Response

dd. *Are any inactive awards with unspent balances carried forward beyond when closeout should occur?*

i. *Are any inactive awards with excess balances being used for other projects?*

ii. *If so, what is the recipient's process for communicating such changes to FTA?*

Review Response

ee. For award closeout, what is the process for submitting required documents?

Review Response

DETERMINING COMPLIANCE

Financial Reporting. Review the recipient's general accounting management process and financial closing/reporting cycle/system from initiation to final closeout. Review the detailed procedures, both automated and manual, at each stage of the process. Identify the controls in place to ensure these activities are authorized, and are processed accurately, completely, and timely. Obtain copies from the prior two years of audit reports, management letters, and Schedules of Expenditures of Federal Awards (SEFAs). Compare these documents with the financial records used to prepare them to verify accuracy and completeness.

Recognition and Processing of Payables. Refer to question F4 in the baseline review.

Periodic Accounting Controls. Review the recipient's financial policies and procedures for internal controls in place to facilitate monthly closeout of the accounts payable, along with the delineation of the personnel responsibilities. Review cut-off, reconciliations, entries, and adjustments that were made as part of the monthly closing process of accounts payable to the general ledger, to ensure that these processes and postings were performed properly.

Disbursement and Exception Processing. Refer to question F4 in the baseline review.

Farebox Revenue Process. Review the procedures, both automated and manual, at each stage of the farebox revenue collection system. Focus especially on the controls in place to ensure these assets are properly controlled and accounted for at each step in the process. During the site visit, observe the controls in effect during a tour of the farebox revenue collection operation area.

Award Records and Reporting. Refer to questions F1, F4, and TC-AM2 in the baseline review.

Award Closeout. Refer to questions F1 and TC-AM5 in the baseline review.

POTENTIAL DEFICIENCY DETERMINATIONS

Refer to questions F1, F4, TC2, and TC-AM5 in the baseline review.

GOVERNING DIRECTIVES

Refer to questions F1, F4, TC2, and TC-AM5 in the baseline review.

FMERM2. Does the recipient's organizational structure clearly define, assign, and delegate appropriate authority for all financial duties and require that those duties are:
1) carried out by properly qualified personnel 2) segregated within the organization and 3) subject to review to ensure that adequate internal checks and balances exist?

BASIC REQUIREMENT

Recipients must have an organizational structure that clearly defines, assigns, and delegates appropriate authority for all financial duties. Those duties must be carried out by properly qualified personnel and be segregated within the organization and reviewed to ensure that adequate internal checks and balances exist.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Refer to question F2 in the baseline review.

INDICATORS OF COMPLIANCE

- a. *How does the recipient ensure that functions are appropriately segregated?*

Review Response

DETERMINING COMPLIANCE

Refer to question F2 in the baseline review.

POTENTIAL DEFICIENCY DETERMINATIONS

Refer to question F2 in the baseline review.

GOVERNING DIRECTIVES

Refer to question F2 in the baseline review.

FMERM3. Does the recipient’s financial management system allow it to prepare reports and trace funds adequately to establish compliance with award terms and conditions?**BASIC REQUIREMENT**

Recipients must have financial management systems in place to accurately account for and report on federal funds.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Refer to question F3 in the baseline review.

INDICATORS OF COMPLIANCE

- a. *What system does the recipient use to track award activity?*
- i. *What information is contained in this system?*
 - ii. *How is award information accumulated and reported (e.g., by budget line item)?*
 - iii. *Is there integration between the award management and financial management systems?*

Review Response

- b. *How are special classifications of award expenditures tracked?*

Review Response

DETERMINING COMPLIANCE

Refer to question F3 in the baseline review.

POTENTIAL DEFICIENCY DETERMINATIONS

Refer to question F3 in the baseline review.

GOVERNING DIRECTIVES

Refer to question F3 in the baseline review.

FMERM4. Does the recipient correctly draw down and track the use of Federal funds for eligible expenses and disburse advance payment funds within three business days?

BASIC REQUIREMENT

Recipients may only request necessary and eligible Federal funds through FTA's Electronic Clearinghouse (ECHO) system. Drawdowns must be tracked by activity line item (ALI), fully supported by backup documentation, and for advanced payment, funds must be dispersed within three business days.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Refer to questions F1 and F4 in the baseline review.

INDICATORS OF COMPLIANCE

- a. *What procedures are in place to ensure that ECHO requests are made in a way that does not violate Federal policy (i.e., the three-day rule)? What procedures are in place to ensure that no more than the allowable Federal portion is drawn down?*

Review Response

- ff. *Who has responsibility for:*

- i. *Making ECHO requests and approving requests?*
- ii. *Ensuring that cash is received?*
- iii. *Recording the receipt in the general ledger?*
- iv. *Reconciling drawdowns to the bank statement?*
- v. *Reconciling drawdowns to TrAMS?*

Review Response

- gg. *How often are these procedures performed?*

Review Response

b. *Are ECHO requests logged?*

i. *By whom?*

Review Response

hh. *Where are the logs stored?*

Review Response

DETERMINING COMPLIANCE

Refer to questions F1 and F4 in the baseline review.

POTENTIAL DEFICIENCY DETERMINATIONS

Refer to questions F1 and F4 in the baseline review.

GOVERNING DIRECTIVES

Refer to questions F1 and F4 in the baseline review.

REFERENCES

1. 49 U.S.C. Chapter 53, Federal Transit Laws
2. 2 CFR Parts 200 and 1201, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards"
3. FTA Circular 5010.1E, "Award Management Requirements"
4. FTA Circular 9030.1E, "Urbanized Area Formula Program: Program Guidance and Application Instructions"
5. FTA Circular 9040.1G, "Formula Grants for Rural Areas: Program Guidance and Application Instructions"
6. FTA Circular 9045.1, "New Freedom Program Guidance and Application Instructions"
7. FTA Circular 9070.1G, "Enhanced Mobility of Senior and Individuals with Disabilities Program Guidance and Application Instructions"

USEFUL WEBLINKS

Flexible Funds: FHWA and FTA Programs

Revenue Bonds

Debt Service Reserve Financing

Electronic Clearing House Operation (ECHO) Web User Manual for FTA and FAA

Federal Audit Clearinghouse (FAC)

ECHO TRANSACTION SAMPLING PROCEDURES

Select a sample (minimum of nine) ECHO transactions. To develop this sample:

1. Download TrAMS Data – Prior to the site visit, prepare a list of ECHO transactions for the period from the date of the last site visit to the date of the current site visit
2. Select ECHO Transactions – Select at least three ECHO transactions from each year of the review period. Use the following characteristics as guide for selecting these transactions:
 - a. Select from different award programs (i.e., 5307, 5309, 5316, 5317, 5324)
 - b. Select from different financial purpose codes. Common financial purpose codes are:
 - 00 – Capital
 - 01 – Research & Training
 - 02 – Planning
 - 03 – Elderly and Disabled
 - 04 – Operating Assistance
 - 05 – Project Administration
 - 06 – State Administration
 - 07 – Rural Technical Assistance Program
 - 08 – ADA Paratransit
 - 09 – Multiple Types
 - c. Select large capital draws
 - d. Select preventive maintenance
 - e. Select flat dollar amounts such as \$80,000
 - f. Select any unusual credits that appear to be systematic
3. Prior to the site visit, request that the recipient have available the entire ECHO drawdown that contains the ECHO transactions selected, along with supporting documentation.
4. During the site visit, analyze the selected ECHO transactions to identify the underlying transactions. Underlying transactions consist of checks, invoices, personnel data, etc.
5. The following attributes should be tested:
 - a. Ensure that an individual other than the one preparing the drawdown approves the drawdown.
 - b. Ensure that someone other than the approving official draws the funds.
 - c. Ensure that the individual approving ECHO drawdowns is either the registered ECHO approving official or a person to whom this person has delegated the authority in writing. The approving official appears on the print out of the ECHO screen.
 - d. Ensure the sum of the underlying transactions equals the amount of the ECHO transactions selected in Step 2.
 - e. For each selected ECHO transaction, select a minimum of one underlying transaction to verify that supporting source documents such as cancelled checks, paid bills, payrolls, time and attendance records, contracts, and subaward documents are maintained to support the underlying transaction(s) selected.
 - f. Ensure that expenses tested are at the correct Federal share and are reasonable, allowable, and allocable to the award charged.
 - g. Ensure that advanced funds drawn down were expended within three business days.

