

2. FINANCIAL MANAGEMENT AND CAPACITY

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.

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, track the use of Federal funds for eligible expenses, and disburse advance payment funds within three business days?
5. Has the recipient complied with requirements for charging indirect costs to Federal Transit Administration (FTA) awards?
6. Has the recipient conducted the required Single Audits, submitted the required documentation to the Federal Audit Clearinghouse (FAC) and FTA, and resolved any identified issues?
7. Does the recipient have financial resources to provide local share for active awards and to adequately maintain and operate FTA-funded assets?
8. For recipients receiving operating assistance, is the amount eligible for operating assistance calculated in compliance with FTA guidance?
9. Does the recipient adequately ensure financial oversight of its subrecipients?

INFORMATION NEEDED FROM RECIPIENT

Recipient Information 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 with financial duties for managing FTA funds
- 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

F1. 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

Recipients should have detailed policies and procedures for managing FTA funds; outlining the recipient's internal control practices to prevent waste, loss, and misuse of federal funds; delegating levels of authority; addressing the accounting software being used; providing financial reports; overseeing subrecipients; etc. Procedures must be written for allowability of cost and to ensure the timely distribution of funds.

2 CFR Part 200 identifies that recipient's written financial policies and procedures must allow it to ensure that costs meet the following general criteria in order to be allowable under the Federal award:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

2 CFR Part 200 also identifies that recipients' written financial policies and procedures must address *Cash Management and Payment in accordance with 2 CFR 200.305 Payment.*

- For states, payments are governed by Treasury-State Cash Management Improvement Act of 1990 (CMIA) agreements and default procedures codified at 31 CFR Part 205 "Rules and Procedures for Efficient Federal-State Funds Transfers" and the Treasury Financial Manual, Part 4A, Chapter 2000 (TFM 4A-2000) Overall Disbursing Rules for All Federal Agencies.
 - i. The CMIA provides the general rules and procedures for the efficient transfer of funds for federal financial assistance programs between the federal government and the states. The CMIA requires an annual Treasury-State Agreement (TSA) between the U.S. Department of the Treasury, Financial Management Service and each of the 50 States, the District of Columbia, and the Territories of American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The objectives of the agreement are to (1) To minimize the time between the transfer of funds to the States and the payout for program purposes; (2) To ensure that federal funds are available when requested; and (3) To assess an interest liability to the federal government and/or the States to compensate for the lost value of funds. TSA covers federal programs that meet the funding threshold established each year and establishes the procedures and requirements for the transfer of funds. These procedures require the state to calculate federal and state interest liabilities at the Treasury bill rate for covered programs and to annually report the liabilities to the federal government. Any interest owed by the state for the preceding fiscal year is due to the federal government no later than March 31 of the following fiscal year.
 - ii. TFM 4A-2000 provides guidance to federal agencies on the overall disbursing rules with the principal objectives of control of disbursements are to ensure that all disbursements are legal, proper, and correct and that all disbursements are accurately recorded, reported, and reconciled in a timely, efficient manner.
- For non-state recipients financial policies and procedures must ensure that payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

INDICATORS OF COMPLIANCE

- a. *Does the recipient have written financial policies and procedures?*
- b. *How do policies and procedures address internal control practices to prevent waste, loss and misuse of federal funds including: (if written, cite location; otherwise explain for each)*

- *Responsibilities, qualifications, training, supervision, and evaluation of financial staff*
- *Organizational structure, levels and delegation of authority, access, and segregation of duties*
- *Financial planning*
- *Safeguarding of funds*
- *Recording and identification of assets; including the use of such*
- *Prevention of duplicate and overbilling*
- *Allowable costs in accordance with 2 CFR Part 200 Subpart E—Cost Principles. Are these policies and procedures written?*
- *Cash Management and Payment in accordance with 2 CFR 200.305 Payment. Are these policies and procedures written?*
- *Accounting software being used*
- *Required financial reporting, review, and approval*
- *Record retention*
- *Financial oversight of subrecipients, if applicable*
- *An audit, testing or review program for internal control systems*

INSTRUCTIONS FOR REVIEWER

Review findings for audits and oversight reviews conducted since the last Comprehensive Review to determine if deficiencies were noted in the recipient's policies and procedures. Verify the procedures were updated as required.

Obtain and review the recipient's financial policies and procedures for how they address the sub-bullets under indicator b. Procedures for allowability of costs and cash management must be written. Merely stating or referencing the regulations, is not sufficient to meet these requirements.

Obtain and review the recipient's procedures to ascertain how it will ensure that costs:

- (a) Are in accordance with the budget and projects in the award.
- (b) Meets the requirements of the award agreement, i.e., cost, project description, etc.
- (c) Are treated the same for both Federal and non-Federal activities, i.e., cost typically charged as indirect for the Federal activity is charged as indirect for non-Federal activities also.
- (d) Can be assigned to the appropriate funding sources within the recipient's financial management systems, i.e. reimbursement of the same cost is not requested from multiple sources.
- (e) Used to match the Federal award are from allowable sources and adequately supported, i.e., in-kind, other DOT or Federal funds, state and local funds, etc.
- (f) Are verified, approved, necessary, and reasonable for the completion of the project.

Review the recipient's procedures to ascertain how it will ensure that Federal funds are disbursed to minimize the time elapsing between the transfer of funds from the Federal agency and disbursement by the recipient.

For other sub-bullets in indicator b, if not explicitly stated in the policies and procedures, follow up with the recipient and/or discuss on site how the recipient addresses the sub-bullets. While on site, discuss any

significant changes that have occurred within the organization, including changes to financial software or systems being used and verify procedures were updated to reflect those changes.

Substantiate implementation of the process explained for each sub-bullet in the review of the remaining questions in this section as follows:

- Responsibilities, qualifications, training, supervision, and evaluation of financial staff – *Question 2*
- Organizational structure, levels and delegation of authority, access, and segregation of duties – *Question F2*
- Financial planning – *Question F7*
- Safeguarding of funds – *Question F4*
- Recording and identification of assets; including the use of such – *Question F3*
- Prevention of duplicate and overbilling – *Question F4*
- Allowable costs in accordance with 2 CFR Part 200 Subpart E—Cost Principles – *Question F4*
- Cash Management and Payment in accordance with 2 CFR 200.305 Payment – *Question F4*
- Accounting software being used – *Question F3*
- Required financial reporting, review, and approval – *Questions F3 & F4*
- Record retention – *Question F3*
- Financial oversight of subrecipients, if applicable – *Question F9*
- An audit, testing or review program for internal control systems – *Question F6*

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if it does not have financial policies and procedures, including written procedures for determining the allowability of costs and ensuring funds are distributed in a timely manner.

DEFICIENCY CODE F1-1: Missing, insufficient, or out of date financial operating procedures

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit to the FTA regional office financial operating procedures for managing FTA award funds in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. This must include procedures for determining allowability of cost and timely distribution of funds. The recipient must submit documentation that it has trained appropriate staff on the new policies and procedures.

The recipient is deficient if it does not have nor can demonstrate implementation of established policies and procedures for internal financial controls.

DEFICIENCY CODE F1-2: Lacking internal financial controls

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office new policies and procedures for establishing and maintaining effective internal control over the Federal award that provides reasonable assurance that it is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

NOTE: This deficiency should be made only if there are multiple and systematic issues identified in the review of this section. Otherwise, deficiency should be made as it relates to the respective requirement. Consult with the regional office.

GOVERNING DIRECTIVE

2 CFR Part 200.302 Financial management

- (a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds.
- (b) The financial management system of each non-Federal entity must provide for the following:
 - (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.
 - (6) Written procedures to implement the requirements of §200.305 Payment.
 - (7) Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award.

2 CFR Part 200.303 Internal controls

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

2 CFR Part 200.305 Payment

- (a) For states, payments are governed by Treasury-State CMAA agreements and default procedures codified at 31 CFR Part 205 “Rules and Procedures for Efficient Federal-State Funds Transfers” and TFM 4A-2000 Overall Disbursing Rules for All Federal Agencies.
- (b) For non-Federal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. See also §200.302 Financial management paragraph (b)(6). Except as noted elsewhere in this part, Federal agencies

must require recipients to use only OMB-approved standard government wide information collection requests to request payment.

2 CFR Part 200.403 Factors affecting allowability of costs

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (c) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (d) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (e) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
- (i) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

FTA Circular 5010.1E Award Management Requirements Chapter VI (2)(f) Standards of Internal Control and Audit Resolutions

(1) General

- a) Recipient management policies that govern implementation of the Award must be clearly stated, understood throughout the organization, and conformed to applicable legislative and administrative requirements.
- b) The recipient's formal organization structure must clearly define, assign, and delegate appropriate authority for all duties.
- c) Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.
- d) A system of organizational planning should exist to determine financial, property, and personnel resource needs.
- e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.

- f) The recipient's information system must reliably provide needed operating and financial data for decision-making and performance review.
 - g) The recipient must provide proper supervision and performance must be subject to review of an effective internal audit program.
 - h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.
 - i) Expenditures must be controlled so that construction, equipment, other property, and services are acquired and received as contracted for (as to quality, quantity, price, and time of delivery); authorizations for expenditures must conform to applicable statutes, regulations, and policies.
 - j) All real property, equipment, expendables, and funds must be safeguarded to prevent misuse, misappropriation, waste, or unwarranted deterioration or destruction.
-
-

F2. 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 regarding the management of Federal funds. 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

A recipient's formal organizational structure must clearly define, assign, and delegate appropriate authority for all financial duties. Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.

All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work. All personnel must be held fully accountable for the proper discharge of their assignments. The recipient must provide proper supervision including an adequate system of internal checks and balances.

INDICATORS OF COMPLIANCE

- a. *Does the recipient's organizational structure define, assign, and delegate authority for all financial duties?*
- b. *What are the recipient's minimum required qualifications for senior financial and accounting staff?*
- c. *Are financial functions and responsibilities segregated?*
- d. *What is the recipient's process for financial supervision?*

e. *Does the recipient have adequate internal checks and balances?*

INSTRUCTIONS FOR REVIEWER

Review the recipient's organizational charts to determine lines of authority for financial duties.

Request and review position descriptions and staff job descriptions to determine if required qualifications match actual job needs and ensure the positions align with the recipient's organization chart.

On site, discuss the recipient's process for training and supervision of financial and accounting personnel. Spot check training records and supervisory approvals of financial reports/documents to verify that the recipient's actual process matches the process described in its policies and procedures.

During review of Electronic Clearinghouse Operation (ECHO) documentation, verify that:

- The approving/authorized official who approved the draw is not the same person who drew the funds.
- Internal approval for the draw was executed prior to the draw being performed.
- The approving official designated on the ECHO payment request form actually approved the draw or delegated that authority in writing to the person who approved the draw.

Review the recipient's procedures to verify that it has a program to effectively resolve the results/findings of external audits, internal audits (if applicable), and oversight reviews. Review audit and oversight review reports for the past three years and any associated corrective actions related to delegation or segregation of financial duties and functions. If not available in subsequent reports, on site discuss how the recipient resolved audit and oversight findings/recommendations.

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if it does not segregate financial duties and functions.

DEFICIENCY CODE F2-1: No segregation of financial duties and functions

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit to the FTA regional office a revised organizational structure demonstrating a segregation of financial duties and functions to create an internal system of financial checks and balances.

The recipient is deficient if it does not have any required financial or accounting qualifications for senior financial/accounting.

DEFICIENCY CODE F2-2: Missing financial qualifications

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit to the FTA minimum financial/accounting qualifications for senior financial/accounting personnel and/or a training program demonstrating how senior personnel will acquire the necessary qualifications.

The recipient is deficient if its listed individual who is the registered ECHO approving official, or a person to whom this person has delegated the authority in writing, does not approve each ECHO request; the recipient is deficient if its approving/authorizing official draws down funds.

DEFICIENCY CODE F2-3: ECHO draws not properly approved

SUGGESTED CORRECTIVE ACTION: The recipient must develop a process to ensure someone other than the approving official requests ECHO funds. The recipient must submit to the FTA regional office a process documenting that an authorized official approves each ECHO request. The recipient will update the authorizing official in ECHO or have the authorizing official delegate authority in writing to the person approving the requests. The recipient must implement

and submit to the regional office documentation of training conducted of the appropriate staff on new policies and procedures.

The recipient is deficient if it does not have a process for supervising financial personnel or the recipient is not following that process.

DEFICIENCY CODE F2-4: Lacking supervision for financial personnel

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit to the FTA updated financial policies and procedures that define a process for supervising financial personnel and evidence that such a process has been implemented.

The recipient is deficient if it does not have adequate internal checks and balances.

DEFICIENCY CODE F2-5: Inadequate internal checks and balances

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit to the FTA regional office evidence of an adequate and implemented system of internal checks and balances.

GOVERNING DIRECTIVE

FTA Circular 5010.1E Award Management Requirements Chapter VI (2) Internal Controls

(f) Standards of Internal Control and Audit Resolutions.

(1) General.

b) The recipient's formal organization structure must clearly define, assign, and delegate appropriate authority for all duties.

c) Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.

g) The recipient must provide proper supervision and performance must be subject to review of an effective internal audit program.

h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.

F3. 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

A recipient's financial management system must provide for the following:

- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received.
- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program.
- (3) Records that adequately identify the source and application of funds for federally-funded activities.
- (4) Effective control over, and accountability for, all funds, property, and other assets.
- (5) Comparison of expenditures with budget amounts for each Federal award.

INDICATORS OF COMPLIANCE

- a. *How does the recipient track and account for federal awards and generate required financial reports?*
- b. *Are federal awards identified with the CFDA title and number, federal award identification number and year, name of the federal agency, and name of the pass-through entity, if any?*
- c. *Do records contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest? Are these supported by source documentation?*
- d. *Are required reports accurate and current and do they disclose complete financial results?*
- e. *Are there comparisons of expenditures to budget by federal award?*

INSTRUCTIONS FOR REVIEWER

Obtain sample records/documents produced by the financial systems to substantiate:

- Federal awards received and expended are identified with the CFDA title and number, Federal Award Identification Number (FAIN) and year, name of the Federal agency, and name of the pass-through entity, if any
- The amounts generated are accurate and current at time of publication for the quarterly or annual Federal Financial Report(s), the FFR, reporting requirements of Federal funding source(s)
- Financial records include Federal award information, amounts awarded, authorized, encumbered and expended; including income earned; and are adequately supported
- Periodic reconciliation of budget to actual expenditures by Federal award are conducted

In TrAMS, obtain the most recent FFR for one award and compare to the recipient's internal records generated from its financial systems to determine that amounts reported, i.e., expenditures, encumbrances, awards, can be reconciled to the internal systems.

Obtain variance reports completed during the review period to verify that budget to actual comparisons are completed as discussed in procedures and significant variances (as defined by the recipient) are explained and/or reconciled.

POTENTIAL DEFICIENCY DETERMINATION

The recipient is deficient if its financial management systems do not permit the preparation of reports required by general and program-specific terms and conditions, or do not allow the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the award agreement. The Program Office may consider payment review or payment suspension to address risk surrounding safeguarding federal funds until the corrective actions are sufficiently addressed.

DEFICIENCY CODE F3-1: Financial management systems deficiencies

SUGGESTED CORRECTIVE ACTION 1: The recipient must establish financial systems that allow for preparation of required reports and permit the tracking 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.

SUGGESTED CORRECTIVE ACTION 2: The recipient must develop and submit to the FTA regional office policies and procedures that allow for the preparation of required reports, tracking of award funds, and addressing required elements and provide evidence of implementing financial management systems to accurately account for and report on federal funds.

GOVERNING DIRECTIVE

2 CFR Part 200.302 (f) Financial Management

- (a) The state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.
- (b) The financial management system of each non-Federal entity must provide for the following:
 - 1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
 - 2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §200.327 Financial reporting and 200.328 Monitoring and reporting program performance.
 - 3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
 - 4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.
 - 5) Comparison of expenditures with budget amounts for each Federal award.

F4. 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 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

Recipients request Federal funds through FTA's ECHO system. The recipient's records must support ECHO requests. The information should be traced back to an invoice for goods or services or internal records, i.e., timesheets, and be supported by information from the recipient's accounting system. Requests for reimbursement of in-kind contributions are eligible as long as the value of each is documented and supported, represents a cost that would otherwise be eligible under the program, and is included in the net project costs in the project budget.

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/authorizing official must not draw the funds.

Recipients may initiate draws only when cash is needed for immediate reimbursement and must disburse the funds within three business days. Disbursement means that the recipient 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, FTA can charge interest beginning on day four. In most cases, recipients request funds on a reimbursement basis (after expenses have been incurred and paid). In some cases, (e.g., large bus procurements), recipients request funds prior to issuing a check. This procedure is acceptable as long as the funds are disbursed within three business days.

Prior to each drawdown the recipient makes in excess of \$50 million, the recipient must notify the FTA regional office. For drawdowns of more than \$50 million but less than \$500 million, the recipient must notify the FTA regional office two business days prior to initiating the drawdown. For drawdowns of more than \$500 million, the recipient must notify the FTA regional office five business days prior to initiating the drawdown. The notification must include the approximate amount(s) and the approximate deposit date(s).

INDICATORS OF COMPLIANCE

- a. *Are drawdowns tracked by ALI? Were any ALIs overcharged?*
- b. *Does backup documentation support the amount of the ECHO draw? If the recipient uses volunteered services or in-kind contributions, does it fully document these services?*
- c. *Are all expenses charged to the award eligible?*
- d. *Did the recipient notify FTA two business days in advance of any drawdowns in excess of \$50 million or five business days in advance of any drawdowns in excess of \$500 million?*
- e. *Did the recipient return any amounts due to the Federal Government resulting from federal claims and debts, excess payments, disallowed costs, refunds due, and other amounts or similar transactions?*

INSTRUCTIONS FOR REVIEWER

Review award applications for budgeted/allocated amounts defined to match the Federal funds. Review progress reports to verify changes in allocated amounts and/or changes in sources of funds used for local match. Review the financial capacity subsection of the Oversight Assessment Tool (OAT) from the Oversight Tracking Systems (OTrak) to identify if FTA has any concerns relating to local share. During discussion with the regional office, inquire if there were any federal claims and debts, excess payments, disallowed costs, refunds due, and other amounts demanded from the recipient and if such accounts have been returned.

Review the audited financial statements and Single Audit reports to determine if there are ECHO process findings. On site, review a sample of ECHO draws in accordance with the Records Selection Procedures below to ensure that documentation supports the draws. Review documentation to determine if:

- The purpose of the draw was eligible under the award.
- The recipient's records show funds requested by ALI, the ALI is not overcharged or erroneously charged for unallowable amounts, and the recipient has made the appropriate requests for budget amendments or revisions.
- The calculation and documentation were accurate and complete.
- If documentation includes indirect cost, review cost allocation plan to confirm the correct rate was used.
- The funds were disbursed within three business days.
- FTA was timely notified for drawdowns exceeding \$50 million.
- If any refunds, obtain and review documentation that the recipient returned amounts as demanded.

If the recipient charges in-kind costs, specifically request as part of the ECHO sample a drawdown that includes these charges. On site, review in-kind charges to the award to determine eligibility, and that the value is documented and supported, and represents a cost that would otherwise be charged.

Complete Exhibit 2.1 at the end of this section.

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if its records do not support ECHO requests; if the ECHO transaction cannot be traced back to an invoice for goods or services or internal records (i.e., timesheets), or the information cannot be supported by the recipient's accounting system.

DEFICIENCY CODE F4-1: ECHO documentation deficient

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for documenting ECHO draws. Discuss with the FTA regional office if it wants to require the recipient to submit ECHO requests for prior approval. The recipient must document and work with the FTA regional office to reimburse FTA for ineligible expenses charged to awards, plus applicable interest. The recipient must implement and submit to the FTA regional office documentation of training conducted of the appropriate staff on new policies and procedures.

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

DEFICIENCY CODE F4-2: Funds not disbursed timely

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for disbursing FTA funds within three business days along with documentation to support that funds were disbursed in accordance with FTA requirements until further notice. The recipient must implement and submit to the regional office documentation of training conducted of the appropriate staff on new policies and procedures.

NOTE: The FTA regional office will determine if interest is owed in accordance with 31 CFR Part 205 and additional corrective action steps necessary.

The recipient is deficient if it failed to return to FTA funds for federal claims and debts, excess payments, disallowed costs, refunds due, and other amounts owed the Federal Government, including interest.

DEFICIENCY CODE F4-3: Federal funds not returned

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office documentation related to the Federal funds owed and must adhere to the direction provided by the FTA regional office. Discuss with the FTA regional office if it wants to require the recipient to submit ECHO requests for prior approval.

GOVERNING DIRECTIVE

2 CFR Part 200.302 (b)(4) Financial Management

The financial management system of each non-Federal entity must provide for the following... (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §200.303 Internal controls.

2 CFR Part 200.303 Internal Controls

The non-Federal entity must (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government', issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission.

2 CFR Part 200.306 Cost sharing or matching

(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:

- (1) Are verifiable from the non-Federal entity's records;
- (2) Are not included as contributions for any other Federal award;
- (3) Are necessary and reasonable for accomplishment of project or program objectives;
- (4) Are allowable under Subpart E—Cost Principles of this part;

- (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
- (6) Are provided for in the approved budget when required by the Federal awarding agency; and
- (7) Conform to other provisions of this part, as applicable.

FTA Circular 5010.1E Chapter VI (2) (f) (3) (b) (7) Cash Management

...Payment received from FTA must be disbursed within three business days...

FTA Circular 5010.1E Chapter VI (9) Payment Procedures (d) Policy for ECHO Payments (2)

Reporting large disbursements to the appropriate FTA regional office in advance of the transaction settlement date. The recipient must provide a minimum notice of two business days for a disbursement totaling \$50 million or more, and a minimum notice of five days when a disbursement of more than \$500 million is anticipated. When specific information has not been finalized, the recipient must inform the FTA Regional Office of approximate amount(s) and approximate deposit date(s). The FTA Headquarters Accounting Payable Division should be notified by the Regional Office due to the requirement that FTA must provide the Treasury 48 hour's notification prior to drawdown of federal assistance exceeding \$50 million.

FTA Master Agreement Section 10 (c)

Amounts Owed to the Federal Government. The Recipient agrees to return to the Federal Government any excess federal payments it receives for disallowed costs, and the Federal Government's proportionate part of any amounts it recovers from third parties or other sources, including refunds due and amounts recovered from third parties or other sources, interest assessed, penalties, and administrative charges.

F5. Has the recipient complied with requirements for charging indirect costs to FTA awards?

BASIC REQUIREMENT

To charge indirect costs to an award, a recipient 1) must have an approved CAP or indirect cost rate proposal (ICRP) OR 2) may elect to charge a de minimis rate of 10 percent of modified total direct costs (MTDC) if it has never had an approved indirect cost rate.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Under federally funded award programs, recipients may incur both direct and indirect costs. A federally approved CAP or ICRP is required to support the distribution of indirect costs to the award program. An organization must seek approval from its Federal cognizant agency as designated in the Uniform Guidance.

A central service CAP, is used by a state-wide, local government-wide, or Indian Tribe-wide agency to distribute executive and central level support functions to operating units which benefit from them. An ICRP may be for an entire organization or developed at the operating agency level to distribute administrative support and/or overhead costs of that agency to the programs (and the awards and contracts) that benefit from them.

Effective December 26, 2014, non-Federal entities that have never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to 2 CFR Part 200, "States and Local Government and Indian Tribe Indirect Cost Proposals," paragraph D.1.b (receive below \$35 million in direct Federal funding), may elect to charge a de minimis rate of 10 percent of modified total direct costs which may be used indefinitely. FTA has procedures that require a recipient to complete a De Minimis Rate Certification indicating they understand the requirements surrounding indirect cost rates and eligibility.

In situations where the cognizant agency has determined that annual review of the plan or rate is not required, recipient organizations must continue to develop annual plans regarding indirect costs and maintain the proposal and related supporting documentation for audit. Unless required by the cognizant agency or FTA, these governmental units are not required to submit their proposals for review and approval. These organizations should maintain documentation to reflect this decision or policy to support the inclusion of indirect costs in the award.

In addition to the initial submission when it serves as the cognizant agency, FTA requires submission of the CAP under the following circumstances:

- annually, if the recipient is a major local government
- the recipient has made a change in its organizational structure and its accounting system, that may significantly impact the CAP
- the recipient changes the CAP
- if requested by FTA

FTA requires ICRPs to be submitted in the following circumstances:

- The recipient is working on its first federal assistance award or has not previously had an ICRP reviewed and accepted (note that such recipients may be eligible for the de minimis rate described above).
- The recipient has made a change in its accounting system that significantly impacts the previously approved ICRP and its basis of application.
- The recipient's proposed ICRP exceeds the rate(s) last approved by FTA by more than 20 percent. For example, if FTA approved a 20 percent rate in 2016, and the rate increased to 23 percent in 2017, and again to 25 percent in 2018, the 2018 rate would be required to be submitted to FTA for approval as it increased by more than 20 percent.
- The recipient changes the ICRP methodology.
- The recipient is either a local governmental unit that receives more than \$35 million in direct federal funding or a non-profit entity. In accordance with 2 CFR part 200, these entities must submit their plan annually to their cognizant agency.

The below table shows the respective cognizant agency for the entities listed.

Entity Type	Appendix to 2 CFR Part 200	Cognizant Agency
State and Local Airport, Transit Authority, Port Authority or Transit District	Appendix V – (CAP) Appendix VII – (ICRP)	DOT
State Government	Appendix V – (CAP) Appendix VII – (ICRP)	DHHS
State and Local Housing and Development Districts	Appendix V – (CAP) Appendix VII – (ICRP)	HUD
Local Government	Appendix V – (CAP) Appendix VII – (ICRP)	DHHS
Tribe	Appendix V	Department of the Interior

Entity Type	Appendix to 2 CFR Part 200	Cognizant Agency
University (Institute of Higher Education)	Appendix III	DHHS or DOD Navy based on amount of funding
Non-Profit	Appendix IV	Determined by the agency providing the largest funding amount or special arrangement
Public Assistance Agencies	Appendix VI	DHHS

INDICATORS OF COMPLIANCE

- a. *Does the recipient charge indirect costs to awards? If no, move to next question.*
- b. *Does the recipient charge indirect costs using the de minimis rate? If no, move to next indicator. If yes, can the recipient document that it is eligible to charge the de minimis (has never had an approved indirect cost rate and is not a state or local governmental unit that receives more than \$35 million in direct Federal funding)?*
- c. *Does the recipient have an approved CAP and/or ICRP?.*
- d. *Was the annual CAP and/or ICRP proposal submitted to the cognizant agency in accordance with the agency's requirements? If annual submission or approval is not required, is a copy of the annual plan retained for audit?*
- e. *If recipient's central services costs are included in the indirect cost rate, is there an approved central services plan and are the rates in the plan consistent with the rates charged to the operating agency and included in the operating agency's indirect cost rate proposal?*

INSTRUCTIONS FOR REVIEWER

Review FFRs and award application project budgets in TrAMS to determine if the recipient charges indirect costs. If the recipient charges the de minimis rate, verify that the recipient has not had a prior approved rate and is not a state or local governmental unit that receives more than \$35 million in direct Federal funding. If the recipient is charging other than the de minimis rate, verify if the rate is consistent with the recipient's approved CAP and/or ICRP. Review award applications in TrAMS if different rates are used. In some cases, recipients will have different approved rates for different projects. Discuss with the regional office staff and verify on site if this is the case.

Review the recipient's responses to its prior Comprehensive Review by accessing the review package from OTrak to ascertain if the recipient indicates that it has charged indirect cost in the past. Obtain a copy of the submitted CAP/ICRP from TrAMS. Note whether there was a previously approved CAP and/or ICRP. Compare the amounts in the CAP and/or ICRP to the amounts listed in the FFRs in TrAMS to confirm that the amount charged to the award is the amount approved. Review the financial management section of the OAT to identify if FTA requires/requested a CAP/ICRP. Discuss with the regional office the approval status of the CAP and/or ICRP. If necessary, ask follow-up questions in the review package or interview recipient staff on site to perform this assessment.

Review the recipient's response to the prior Comprehensive Review by accessing the review package from OTrak. Note if there is a previously approved central services plan. If applicable, review the central service plan and document the approved amounts. Compare the rate in the central services plan to the rate listed in FFRs in TrAMS to confirm that the rate charged to the award is the amount approved.

Obtain formal approvals from the recipient's cognizant Federal agency for the CAP and/or ICRP. If a formal approval is not available, verify whether the recipient complied with the submission requirements of its cognizant agency.

Review the financial management section of the OAT to identify if FTA expressed concerns about the central services plan or rate. If necessary, ask follow-up questions and interview recipient staff on site to perform this assessment.

POTENTIAL DEFICIENCY DETERMINATION

The recipient is deficient if it charges indirect costs to FTA awards but does not have an approved CAP or ICRP.

DEFICIENCY CODE F5-1: Ineligible indirect costs charged to awards

SUGGESTED CORRECTIVE ACTION: Discuss appropriate corrective action with the FTA regional office and regional counsel and take appropriate action based on FTA's written direction.

GOVERNING DIRECTIVE

Appendix III to 2 CFR Part 200, C. 11 A (1) Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), Negotiation and Approval of Indirect (F&A) Rate

Cost negotiation cognizance is assigned to the Department of Health and Human Services (HHS) or the Department of Defense's Office of Naval Research (DOD), normally depending on which of the two agencies (HHS or DOD) provides more funds to the educational institution for the most recent three years...In cases where neither HHS nor DOD provides Federal funding to an educational institution, the cognizant agency for indirect costs assignment must default to HHS.

Appendix IV to 2 CFR Part 200, C. 2.a - c and g, Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, Negotiation and Approval of Rates

a. Unless different arrangements are agreed to by the Federal agencies concerned, the Federal agency with the largest dollar value of Federal awards with an organization will be designated as the cognizant agency for indirect costs for the negotiation and approval of the indirect cost rates and, where necessary, other rates such as fringe benefit and computer charge-out rates. Once an agency is assigned cognizance for a non-profit organization, the assignment will not be changed unless there is a shift in the dollar volume of the Federal awards to the organization for at least three years. b. Except as otherwise provided in §200.44 Indirect (F&A) costs paragraph (f) of this Part, a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award. c. Unless approved by the cognizant agency for indirect costs in accordance with §200.414 Indirect (F&A) costs paragraph (g) of this Part, organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs within six months after the close of each fiscal year. g. The results of each negotiation must be formalized in a written agreement between the cognizant agency for indirect costs and the nonprofit organization. The cognizant agency for indirect costs must make available copies of the agreement to all concerned Federal agencies.

Appendix V to 2 CFR Part 200, D State/Local Governmentwide Central Service Cost Allocation Plans, Submission Requirements

Each state will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards...Each major local government is also required to submit a plan to its cognizant agency for indirect costs annually. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Part and maintain the plan and related supporting documentation for audit. These local governments are not

required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's plan. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs.

Appendix V to 2 CFR Part 200, f.1 and 3 State/local governmentwide central service cost allocation plans, negotiation and approval of central service plans

In general, unless different arrangements are agreed to by the concerned federal agencies, for central service cost allocation plans, the cognizant agency responsible for review and approval is the federal agency with the largest dollar value of total federal awards with a governmental unit. For indirect cost rates and departmental indirect cost allocation plans, the cognizant agency is the federal agency with the largest dollar value of direct federal awards with a governmental unit or component, as appropriate. Once designated as the cognizant agency for indirect costs, the federal agency must remain so for a period of five years. The results of each negotiation must be formalized in a written agreement between the cognizant agency for indirect costs and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation must be made available to all federal agencies for their use.

Appendix VII to 2 CFR Part 200, D. b. and d States and Local Government and Indian Tribe Indirect Cost Proposals, Submission and Documentation of Proposals

A governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. Other governmental department or agency must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs... Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant agency for indirect costs.

2 CFR Part 200.414 (f)

In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200 - States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.

2 CFR Part 200.414 (g)

Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rates in that agreement for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is awarded the non-Federal entity may not request a rate review until the extension period ends. At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.

FTA Circular 5010.1E, Appendix F, Cost Allocation Plans, 3. Submission Requirements (d)

When FTA is the cognizant agency, the CAP must be submitted under the following circumstances: (1) for an initial plan, (2) annually for major local governments, (3) for a change in organizational structure and accounting system that may significantly impact the CAP, (4) for a change in CAP methodology, and/or (5) upon request for all other entities. All CAPs must be retained for audit.

FTA Circular 5010.1E, Appendix G, Indirect Cost Rate Proposals, 3. Submission Requirements

When FTA is the cognizant agency for indirect costs, the ICRP should be submitted to the FTA when:

- a. The recipient is working on its first federal assistance Award or has not previously had an Indirect Cost Rate Proposal reviewed and accepted (note that such recipients may be eligible for the *de minimis* rate described in section 1 above).
- b. The recipient has made a change in its accounting system that significantly impacts the previously approved Indirect Cost Rate Proposal and its basis of application.
- c. The recipient's proposed Indirect Cost Rate Proposal exceeds the rate(s) last approved by FTA by more than 20 percent.

For example, if FTA approved a 20 percent rate in 2013, and the rate increased to 23 percent in 2014, and again to 25 percent in 2015, the 2015 rate would be required to be submitted to FTA for approval as it increased by more than 20 percent.

- d. The recipient changes the Indirect Cost Rate Proposal methodology.
- e. The recipient is either a local governmental unit that receives more than \$35 million in direct federal funding or a non-profit entity. In accordance with 2 CFR part 200, these entities must submit their plan annually to their cognizant agency.

F6. Has the recipient conducted the required Single Audits, submitted the required documentation to the Federal Audit Clearinghouse (FAC) and FTA, and resolved any identified issues?

BASIC REQUIREMENT

Non-Federal entities that expend \$750,000 or more in Federal awards in their fiscal year are required to conduct an independent Single Audit submit required documentation timely, and resolve identified issues.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

2 CFR 200 Subpart F requires all non-Federal entities that expend \$750,000 or more in Federal awards in a year to conduct an independent Single Audit. 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.

Single Audit reports must be completed and data collection form and reporting package (financial statements, summary schedule of prior audit findings, auditor's report, and corrective action plan) must be submitted to the FAC within the earlier of 30 calendar days after receipt of the auditor's report or nine months after the end of the audit period.

Recipients must resolve Single Audit findings promptly and upon discovery of the issue for audits under the Uniform Guidance requirements. The recipient must resolve the deficiencies or opportunities for improvement identified in their audit. The status of outstanding audit findings and recommendations should be monitored and reported by the recipient in quarterly progress reports and, where appropriate, significant events reported.

INDICATORS OF COMPLIANCE

a. *For what years was the recipient required to conduct a Single Audit?*

Fiscal Year	Amount of Federal Funds Expended	Single Audit Conducted? (Y/N)

**Table to be completed for years in which a Single Audit has not been conducted.*

b. *When were the audits required to be submitted? What are the actual submission dates?*

Audit Year	Required Submission Date	Actual Submission Date

c. *If there were Single Audit findings, what is the status of addressing those that related to FTA or US DOT programs? If there were no audit findings, move to the next question.*

- o *Does the Single Audit demonstrate that the recipient implemented recommendations related to audit findings made under an FTA or other DOT program?*
- o *If there are open findings, how is the recipient working to address and/or resolve Single Audit findings?*

INSTRUCTIONS FOR REVIEWER

Review ECHO drawdowns for the past three years to determine if the recipient expended over \$750,000 in any of the three years covered by the Comprehensive Review. Review the recipient’s website to ascertain if its budget/financial statements are accessible. Review the statement of expenditures for total funds projected to be expended or expended by the agency for each year of the review period. Obtain from the recipient a schedule of federal expenditures during the review period, by fiscal year to determine if the \$750,000 threshold was met. If the recipient was not required to conduct a Single Audit, move to the next question.

Review information available from the FAC website via the link provided below to determine if the required Single Audits were conducted and submitted. If the information is not available from FAC, follow-up with the recipient for copies of missing Single Audits. Obtain the audit report to determine the end of the recipient’s fiscal year and to review the date the auditor issued the report. Request documentation from the recipient of the date the Single Audit was submitted to the FAC and assess if it was submitted within the earliest of 30 calendar days of receipt of the auditor’s report or nine months after the end of the recipient’s fiscal year.

Download a copy of the SF-SAC and each fiscal year’s Single Audit from FAC to determine if the auditor identified findings in the recipient’s major program(s). If not submitted, discuss with the regional office the steps taken to address the non-submission. The recipient’s failure to submit a Single Audit package,

results in the recipient losing the ability to qualify as a “low-risk auditee” per the Single Audit, which could result in FTA reviewing its oversight efforts.

For prior year findings found in the Schedule of Prior Federal Award Findings of each Single Audit report, determine whether the related corrective action(s) has been implemented and findings resolved and closed based on the Single Auditor’s assessment.

Review the current year findings detailed in the Schedule of Findings and Questioned Costs of each Single Audit report. Review progress reports submitted in TrAMS to determine if the recipient has been reporting on its progress to implementing recommendations made by the Single Auditor in the respective report.

If necessary, review the Single Audit module in OTrak to determine the recipient's progress towards addressing audit findings. If findings are unresolved, follow up with the regional office. If necessary, ask follow-up questions or conduct an onsite interview to determine the recipient’s progress towards resolution.

FAC website address: <https://harvester.census.gov/facdissem/Main.aspx>.

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if it meets the threshold for conducting a Single Audit but has not done so.

DEFICIENCY CODE F6-1: Annual audit not conducted

SUGGESTED CORRECTIVE ACTION: The recipient must conduct outstanding annual Single Audit(s) in accordance with 2 CFR Part 200, Subpart F; the recipient must submit documentation to the FTA regional office that it has completed annual Single Audits for all missing years.

DEFICIENCY CODE F6-2: Outstanding annual audit deficiencies

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures and a schedule for resolving Single Audit findings. The recipient must report on the status of addressing audit findings in its progress reports.

GOVERNING DIRECTIVE

2 CFR Part 200.501 (a) Audit required

A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

2 CFR Part 200.512 Report submission (a) General

(1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

2 CFR Part 200.512 Report submission (b) Data Collection

(1) The auditee must submit required data elements described in Appendix X to Part 200 - Data Collection Form (Form SF-SAC), which state whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The data must include information available from the audit required by this part that is necessary for Federal

agencies to use the audit to ensure integrity for Federal programs. The data elements and format must be approved by OMB, available from the FAC, and include collections of information from the reporting package described in paragraph (c) of this section. A senior level representative of the auditee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to be included as part of the data collection that says that the auditee complied with the requirements of this part, the data were prepared in accordance with this part (and the instructions accompanying the form), the reporting package does not include protected personally identifiable information, the information included in its entirety is accurate and complete, and that the FAC is authorized to make the reporting package and the form publicly available on a Web site.

FTA Circular 5010.1E, Chapter VI, Section 8. Annual Audit (d) Resolution of Audit Findings (3)

The recipient must resolve the deficiencies or opportunities for improvement identified in their audit. The resolution of audits begins with FTA's report to the recipient and continues until the recipient corrects identified deficiencies, implements needed improvements, or demonstrates that the findings or recommendations are not valid or do not warrant management action. The audit cannot be closed until FTA concurs in the documentation of steps taken to implement any needed corrective actions. The status of outstanding audit findings and recommendations should be monitored and reported by the recipient in quarterly progress reports and, where appropriate, significant events reported.

F7. Does the recipient have financial resources to provide local share for active awards and to adequately maintain and operate FTA-funded assets?

BASIC REQUIREMENT

Recipients must have the financial capacity to carry out their proposed program of projects.

APPLICABILITY

All recipients

DETAILED EXPLANATION FOR REVIEWER

Annually, the recipient certifies to FTA (as part of the annual certifications and assurances process) that it has the legal, financial, and technical capacity to carry out its proposed program of projects (POP), including safety and security aspects of the program.

Upon request from FTA, the recipient agrees to provide a financial plan delineating the source of non-federal share, the amounts applicable to the different sources, and the time frame for acquisition of the non-federal share. Recipients must have multi-year financial plans (3–5 years) for operating and capital revenues and expenses to implement FTA awards. The financial plans should indicate adequate revenues to maintain and operate the existing system and to complete the annual program of projects (POP).

All local share used to match FTA awards must come from non-US DOT sources, except for Federal Lands Highway Program funds, including Federal Highway Administration (FHWA) Tribal Transportation Program funds. No FTA program funds can be used as a source of local match for other FTA programs, even when the funds are contract revenue. Federal loan programs such as Transportation Infrastructure Finance and Innovation Act (TIFIA) or Railroad Rehabilitation & Improvement Financing (RRIF) count as Federal sources even though they are often repaid with local or state funds. Depending on the award program, FTA 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; revenue bond proceeds (capital only); transportation development (toll) credits; program income generated from an earlier award; non-US DOT Federal funds if authorized by the originating program to be used for

transportation; funds used to purchase vanpool vehicles by private providers of public vanpools (capital match only); and in-kind match for intercity bus service.

A recipient's financial condition, future financial capacity, and ability to match FTA funds could be affected greatly if one or more of its sources of non-FTA funding are affected by pending legislation or "sunset" provisions in current legislation. The recipient's eligible and available non-Federal funds may be diverted from serving as match for an FTA award if there are other Federal awards which are at risk of lapsing. Similarly, when state and/or local sources of funding decrease, the recipient may be unable to meet the non-Federal match requirements for existing FTA awards. This may also result in service reductions and/or fare increases, redirection of funds to meet critical operating and maintenance needs, and/or staff reductions.

INDICATORS OF COMPLIANCE

a. *For the past three years, what were the amounts and sources of funds to support transit programs? Were all sources eligible? Are any funds in jeopardy?*

Year	Source	Amount	Status (elected, discretionary, by law, etc.)	Eligible?	In jeopardy?

b. *What are the anticipated amounts and sources for the next three years? Are all sources eligible?*

Year	Source	Amount	Status (elected, discretionary, by law, etc.)	Assumptions

c. *How are expenses, and local and Federal sources of funds budgeted/projected and how are adjustments made to projections, when necessary?*

d. *What impacts to local funding have occurred since the last Comprehensive Review? Has the organization identified any changes that could impact local funding in the near future? What are the plans for addressing any changes?*

e. *In the short-term financial plan (next three years) what are the underlying assumptions that could affect the financial condition of the recipient?*

f. *Has the recipient had deficits, layoffs, service cuts, or deferred or late maintenance since the last Comprehensive Review? If no, does the recipient project any such changes in its operations?*

- g. Have the recipient's capital funds been used to cover deficits in the operating budget since the last Comprehensive Review? If no, does the recipient project using capital funds for such purpose?*

INSTRUCTIONS FOR REVIEWER

Review the recipient's financial plan projecting revenues and expenses for the next three years (or longer), and the following documents for the review period: annual audit reports, local or state legislation, the budget and/or financial statements, comprehensive annual financial reports (CAFRs) or S/TIP.

- Review sources of funding (i.e., farebox revenue, toll tax, etc.) to determine if amounts are discretionary, elected, or provided by law.
- Review local sources of funding to determine if they are eligible and for significant changes that may affect the recipient's revenues.
- Compare operating and capital budgets over the six year period (past three years, and projected next three years.) by reviewing revenue and expense categories to compare amounts allocated to determine if there has been any significant change in funds; to ensure that reports are not showing or projecting deficits, layoffs, service cuts, or deferred or late maintenance and/or ongoing concerns. Determine if there is discussion from management explaining the changes in financial condition and/or service operations from year to year.
- Review the assumptions and notes to the financial plan, the budget and/or financial statements or S/TIP to evaluate:
 - i. Whether the reported amounts for sources of funding are confirmed or there are pending approval actions (i.e., pending legislation or "sunset" provisions in current legislation).
 - ii. How the recipient has addressed or is addressing any changes in local funding.
 - iii. Reason(s) for any projected increase and/or decrease in revenues and/or expenses.
 - iv. Justification for the use of capital funds to cover operating expenses.
- Ensure reports are not projecting deficits and/or ongoing concerns.

Review the recipient's financial policies and procedures for a process to reconcile budget revisions for changes in line item budgets. Request a sampling of annual budget/actual reconciliation reports and review changes in expense categories to ensure revenues and expenses are adjusted based upon reasonable assumptions and do not adversely affect the recipient's financial condition and its ability to maintain the FTA-funded program. Review board meeting minutes for justification of changes in expenses, if required.

Review the recipient's project status subsection of the quarterly/annual milestone progress reports (MPRs) in the reporting module of TrAMS for discussion relating to projects involving FTA funds and whether they are being deferred or have stalled because the non-Federal match is not available. In OTrak, access the finding search results from audits or prior reviews, to determine if there were preventive maintenance findings related to FTA or US DOT programs due to deferred maintenance. Review the maintenance section of the OAT from OTrak, to verify whether FTA has concerns regarding asset impairment.

Request a sampling of annual budget/actual variance reports and review expenditures between operating and capital budgets over the review period and within a review year to ensure there are no indicators that the recipient's capital funds have been used to cover deficits in the operating budget.

If documentation provided is insufficient to address the questions above, ask follow-up questions and conduct on site interviews with staff.

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if 1) it reports financial deficits or lack of funding is impacting the ability to maintain and operate existing systems or to complete programs of projects, and there is no mitigation plans and/or 2) there is pending legislation that could affect local funding sources negatively, or 3) lack of funding is impacting the ability to maintain and operate existing systems or to complete programs of projects.

DEFICIENCY CODE F7-1: Recipient lacks financial capacity to carry out program

SUGGESTED CORRECTIVE ACTION 1: The recipient must submit to the FTA regional office a plan for reducing expenditures, increasing revenues, or a combination of both to compensate for a budget shortfall.

SUGGESTED CORRECTIVE ACTION 2: The recipient must 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.

SUGGESTED CORRECTIVE ACTION 3: The recipient must submit to the FTA regional office a new or revised multi-year financial plan if the recipient fails to demonstrate financial capacity.

The recipient is deficient if it cannot document that the funds used for local match are eligible.

DEFICIENCY CODE F7-2: Ineligible local match

SUGGESTED CORRECTIVE ACTION: The recipient must 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, work with the FTA regional office to develop a corrective action.

GOVERNING DIRECTIVE

49 U.S.C. 5307(d)(1)(a) Grant Recipient Requirements

A recipient may receive a grant in a fiscal year only if...has or will have the legal, financial, and technical capacity to carry out the program, including safety and security aspects of the program.

FTA Circular 5010.1E, Chapter VI, Section 4 Financial Plan

Upon request from FTA, the recipient agrees to provide a financial plan delineating the source of non-federal share, the amounts applicable to the different sources, and the time frame for acquisition of the non-federal share. Recipients must have multi-year financial plans (3–5 years) for operating and capital revenues and expenses to implement FTA Awards. The financial plans should indicate adequate revenues to maintain and operate the existing system and to complete the annual program of projects (POP).

2 CFR Part 200.306 Cost sharing or matching

(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:

- (1) Are verifiable from the non-Federal entity's records;
- (2) Are not included as contributions for any other Federal award;

- (3) Are necessary and reasonable for accomplishment of project or program objectives;
- (4) Are allowable under Subpart E—Cost Principles of this part;
- (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
- (6) Are provided for in the approved budget when required by the Federal awarding agency; and
- (7) Conform to other provisions of this part, as applicable.

F8. For recipients receiving operating assistance, is the amount eligible for operating assistance calculated in compliance with FTA guidance?

BASIC REQUIREMENT

Operating assistance may not cover more than half the recipient's eligible operating expenses net of farebox revenues.

APPLICABILITY

Recipients of FTA operating assistance that provide service

DETAILED EXPLANATION FOR REVIEWER

Qualifying operators are eligible for operating assistance in an amount based on an individual operator's percentage of all public transportation service in the UZA.

MAP-21 expanded eligible Section 5307 activities to include Job Access and Reverse Commute (JARC) projects, which provide nontraditional transportation services intended to serve the employment-related transportation needs of welfare recipients and low-income individuals. These projects were previously eligible under the repealed Section 5316 program. JARC projects may include operating assistance in a large UZA, where operating assistance is otherwise not an eligible expense. Operating assistance for eligible JARC projects is not limited by the "100 bus" special rule for operating assistance established by MAP-21 under 5307(a)(2).

Section 5310 operating funds are available for public transportation projects that exceed the Americans with Disabilities Act (ADA) minimum requirements, improve access to fixed-route service and decrease reliance by individuals with disabilities on ADA paratransit, or provide alternatives to public transportation that assist seniors and individuals with disabilities with transportation.

It is the responsibility of the recipient 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 bus, 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 Circular 9030.1E, Appendix C provides a worksheet for calculating eligible operating expenses.

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

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 recipient's local share.

INDICATORS OF COMPLIANCE

- a. *Does the recipient receive operating assistance from FTA? If no, skip to next question.*
- b. *If yes, how does the recipient calculate net operating/project costs?*
- c. *Do amounts for which reimbursement is sought exclude ineligible costs?*

INSTRUCTIONS FOR REVIEWER

Review the recipient's awards in TrAMS to determine if they receive operating funds from FTA. Review the recipient's operating expenses included in their operating budget for the past three years as depicted in the budget, Single Audit reports, and other available financial documents. Review ECHO requests to re-calculate the requested amounts using FTA Circular 9030.1E, Appendix C, Operating Calculation Worksheet. Ensure ineligible costs, such as ADA complementary paratransit operating costs, are correctly omitted from the reimbursable amounts if the recipient uses capital funds for ADA complementary paratransit service operations or if the recipient is ineligible for operating assistance. Discuss onsite, the recipient's process for calculating net operating costs.

POTENTIAL DEFICIENCY DETERMINATION

The recipient is deficient if it's requested funds for operating assistance are more than half the operating expenses after fare revenues are credited and ineligible costs are deducted to arrive at the net project cost.

DEFICIENCY CODE F8-1: Ineligible operating expense calculation

SUGGESTED CORRECTIVE ACTION 1: The recipient must submit to the FTA regional office procedures for properly calculating net eligible project costs for operating assistance.

SUGGESTED CORRECTIVE ACTION 2: If the recipient has received operating funds in excess of allowable amounts, work with the FTA regional office and regional counsel to determine the appropriate corrective action.

GOVERNING DIRECTIVE

FTA Circular 9030.1E, Ch. IV, Section 4. Operating Assistance

FTA provides funding to eligible recipients for costs incurred in the operation of public transportation service. In general, operating expenses are those costs necessary to operate, maintain, and manage a public transportation system. Operating expenses usually include such costs as driver salaries, fuel, and items having a useful life of less than one year.

FTA Circular 9030.1E, Ch. III, Section 8c. Use of Program Income as Local Share

...In a grant application requesting operating assistance, the applicant must deduct farebox revenues from operating costs to arrive at the net project cost of an operating assistance project. See Appendix C, "Operating Assistance Projects," of this circular for assistance in calculating the net project cost of a grant requesting operating assistance...

FTA Circular 9040.1G, Ch. III, Section 4; FTA C. 9070.1G, Ch. III, Section 16 Operating Expenses

The federal share of the eligible operating costs may not exceed 50 percent of the net operating costs of the activity.

FTA Circular 9045.1, Ch. III, Section 12; FTA C. 9050.1, Ch. III, Section 12 Federal and Local Matching Requirements

The Federal share of the eligible operating costs may not exceed 50 percent of the net operating costs of the activity. Recipients may use up to 10 percent of their apportionment to support program administrative costs including administration, planning, and technical assistance, which may be funded at 100 percent Federal share.

F9. Does the recipient adequately ensure financial oversight of its subrecipients?

BASIC REQUIREMENT

The recipient is responsible for ensuring that subrecipients have financial management systems that meet standards for financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management; requirements regarding the use of indirect cost when reimbursement is sought from a Federal award program are met; and annual independent Single Audits conducted by subrecipients expending \$750,000 or more in Federal awards in a year.

APPLICABILITY

Recipients with subrecipients

DETAILED EXPLANATION FOR REVIEWER

Annually, the recipient 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. Some recipients provide financial assistance to support public transit services of its subrecipients. This financial assistance may provide some or all of the non-Federal match. The sources of funding may differ for capital and operating assistance programs. FTA does not require a dedicated funding source. See discussion under *Detailed Explanation For Reviewer* at question F7 for eligible local match.

The recipient is responsible for ensuring that subrecipients have financial management systems that meet standards for financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management. The recipient is not required to monitor the financial management systems of subrecipients that do not receive Federal cash (e.g., subrecipients for which the recipient procures vehicles). Some recipients require applicants, especially first-time applicants, to describe their accounting systems or may perform a pre-award review of accounting systems. Other recipients require subrecipients to maintain separate accounting records for projects. In addition to financial and Single Audits, some recipients require subrecipients to have their auditors certify year-end financial statements or perform a program audit of their transit operations.

The recipient is required to ensure that subrecipients can trace funds to a level of expenditures adequate to establish, that the funds are used for eligible expenditures under the program. Common practices among pass-through entities include but are not limited to:

- Reviewing Single Audits
- Requiring subrecipients to submit supporting documentation periodically
- Requiring new and high-risk recipients to submit supporting documentation with every reimbursement request

INDICATORS OF COMPLIANCE

- a. *How does the recipient ensure that its subrecipients have sufficient financial resources to provide local share for projects and to adequately maintain and operate FTA-funded assets?*

- b. *How does the recipient ensure that subrecipients match funds are eligible?*
- c. *How does the recipient ensure that its subrecipients have sufficient financial controls in place?*
- d. *How does the recipient ensure that subrecipients comply with Federal indirect cost rate requirements?*
- e. *How does the recipient ensure that Single Audits of subrecipients are conducted and FTA program related findings resolved?*
- f. *How does the recipient ensure that subrecipients calculate the amount eligible for operating assistance in compliance with FTA guidance?*

INSTRUCTIONS FOR REVIEWER

Review award applications and their Program of Projects and MPRs in TrAMS to identify:

- Whether the recipient has subrecipients and the type of subrecipients
- The types of projects implemented by subrecipients, amount of funding received, and charges reimbursed from the award, i.e. operating, capital, administrative, etc.

Review the financial capacity, financial management, and awards management subsections of the OAT in OTrak to verify whether FTA has concerns regarding:

- The recipient's financial oversight of subrecipients
- Subrecipient's Single Audit results, corrective action plan status and/or resolution

For each fiscal year, review the Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Report on Internal Control Over Compliance sections of the recipient's and/or subrecipient's Single Audit report to verify no material misstatements and/or significant deficiencies were reported relating to:

- Recipient's oversight of its subrecipients
- Subrecipient's financial controls
- Subrecipient's indirect cost rate allocations
- Subrecipient's unresolved findings

Review the recipient's application process to determine if subrecipient's financial resources and capabilities are assessed.

Review the financial policies and procedures, state/program management plans and/or oversight procedures to determine:

- The recipient's process to confirm evidence of financial control of subrecipients
- How the recipient confirms that subrecipients comply with the Federal indirect cost rate and Single Audit requirements

- The frequency of submittals from subrecipients and assessment of compliance (i.e., oversight is performed quarterly, bi-annual/annually etc.)

Review the recipient's subrecipient invoice process to determine if it ensures that subrecipients calculate operating assistance correctly.

Review the recipient's oversight tools (checklists, reports, etc.) to verify implementation of its oversight process (desk review reports, site visits conducted, etc.) and whether the process addressed the subrecipient's:

- Financial controls over award records, assets, and personnel
- Fiscal capabilities

For subrecipients selected for a site visit:

- Review the subrecipient application and oversight program to verify the recipient assessed the financial resources and capabilities of the subrecipient.
- Determine whether documents were reviewed/obtained from subrecipients to:
 - Establish that the correct indirect cost rates are used for eligible expenditures under the program. Documents may include the subrecipient's CAP or approval letter from its cognizant agency of its indirect rate; results of sampled invoices reviewed; and follow-up items, if applicable, to assess compliance.
 - Verify whether the subrecipient's expenditures exceeded the \$750,000 Single Audit threshold. Documents may include annual financial statements and/or annual budgets.
 - If subrecipient expenditures exceeded the \$750,000 Single Audit threshold, verify the subrecipient completed the required Single Audit on-time.
 - If there were findings in the Single Audit, review correspondence between the recipient and its subrecipients regarding documentation of corrective action plans and/or closure of findings.
- Verify that reports can be generated by the subrecipient to identify FTA-funded assets, liabilities, revenues, and expenses.
- During the site visit, follow up on items for which documentation is not available in the recipient's office or for which oversight appears insufficient.

POTENTIAL DEFICIENCY DETERMINATIONS

The recipient is deficient if it does not ensure that subrecipients have the financial capacity to carry out its proposed program of projects.

DEFICIENCY CODE F9-1: Insufficient oversight of subrecipient financial capacity

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for ensuring that subrecipients have the financial capacity to carry out its proposed program of projects.

The recipient is deficient if it does not ensure that subrecipients use only eligible funds for match.

DEFICIENCY CODE F9-2: Insufficient oversight of subrecipient match funds

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for ensuring that subrecipients only use eligible funds for match.

The recipient 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 or if the recipient does not ensure that subrecipients can adequately document reimbursement requests.

DEFICIENCY CODE F9-3: Insufficient oversight of subrecipient financial management systems

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for ensuring that subrecipients have the financial management systems to carry out the programs, receive and disburse Federal funds, and adequately support reimbursement requests.

The recipient is deficient if it does not review/verify its subrecipients' application of indirect costs to FTA awards for compliance with related requirements.

DEFICIENCY CODE F9-4: Insufficient oversight of subrecipient indirect cost

SUGGESTED CORRECTIVE ACTION: The recipient must submit procedures to the FTA regional office, along with evidence of its implementation, for ensuring that subrecipients that claim indirect costs have and comply with the requirements of their cost allocation plans.

The recipient is deficient if it does not ensure that Single Audits are completed and submitted as required; if the recipient does not review subrecipient audits and ensure that audit findings related to the FTA-funded program are resolved.

DEFICIENCY CODE F9-5: Insufficient oversight of subrecipient audits

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for obtaining and reviewing subrecipients' Single Audits and monitoring the resolution of audit findings.

The recipient is deficient if it does not ensure that recipients calculate the amount eligible for operating assistance in compliance with FTA guidance.

DEFICIENCY CODE F9-6: Insufficient oversight of subrecipient operating assistance calculations

SUGGESTED CORRECTIVE ACTION: The recipient must submit to the FTA regional office procedures for ensuring that subrecipients calculate the amount eligible for operating assistance in compliance with FTA guidance.

GOVERNING DIRECTIVE

2 CFR Part 200.331(d) Requirements for pass-through entities

All pass-through entities must...Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include: (1) Reviewing financial and performance reports required by the pass-through entity. (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means. (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision. (e) Depending upon the pass-

through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals: (1) Providing subrecipients with training and technical assistance on program-related matters; and (2) Performing on-site reviews of the subrecipient's program operations; (3) Arranging for agreed-upon-procedures engagements as described in §200.425 Audit services.

2 CFR Part 200.331(a)(4) Requirements of pass-through entities

All pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information...An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)...

2 CFR Part 200.331(f) Requirements for pass-through entities

All pass-through entities must...Verify that every subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

ISSUES/AREAS OF CONCERN FOR FTA AWARENESS

1. What financial management or capacity concerns are identified in the OAT? How does background research and onsite investigation support the OAT assessment?
2. What was the nature of any Single Audit report findings not reported to FTA that should have been?
3. Were there financial management or capacity deficiencies in the last Comprehensive Review? What is the status of those findings? Were any repeat findings? Did the recipient experience any difficulty closing findings? Can the recipient demonstrate full understanding and implementation of corrective actions?
4. What other financial-related oversight reviews, audits, or investigations has the DOT, OIG, or FTA conducted of the recipient since the last Comprehensive Review (including Financial Management Oversight Reviews, Financial Capacity Assessments, OIG audits or investigations)? What is the status of those findings? Were any repeat findings? Did the recipient experience any difficulty closing findings? Can the recipient demonstrate full understanding and implementation of corrective actions?
5. Is the recipient missing written financial policies and procedures for its financial management practices?
6. Have financial policies and procedures been regularly updated?
7. Have policies and procedures been updated to reflect any changes to federal regulatory requirements?
8. If the recipient has had any audit/review findings or significant changes to its organization or software being used, have policies and procedures been updated as necessary?
9. Does the recipient develop and maintain financial management reports comparing actual expenses against budgets with explanations of significant variances?

10. Do the recipient's policies and procedures appear to provide a sufficient framework to ensure proper internal financial control?
11. Do the recipient officials routinely review financial reports?
12. Has the recipient had numerous ECHO rejections or made numerous credits/refunds in the ECHO system?
13. Has FTA implemented drawdown restrictions due to non-compliance with requirements?
14. Is the recipient's cost allocation plan (CAP) or indirect cost rate proposal (ICRP) outdated, unapproved, or does not support the rate being charged on the FFRs?
15. Does the recipient's financial and accounting staff appear to have sufficient qualifications, experience, and supervision to ensure proper internal financial controls over FTA funds? If not, explain.
16. Has there been a turnover of financial management staff? Are there any openings not filled? What is the impact on the recipient?
17. Does the recipient's financial system appear to be sufficient to accurately track and account for FTA funds at the appropriate level of detail and generate any required report by FTA? Are there discrepancies between the recipient's financial records and that shown in TrAMS? If yes, explain.
18. Has the recipient experienced deficits? How has this affected operations and investment? Are project delays present due to deficit management? Is the recipient in risk of losing state or local funding?
19. Does the recipient have a financial plan project revenues and expenses and provides details of financial assumptions?
20. Are there indications of unfunded liabilities, state or local match is not available, funds are being redirected from originally budgeted purposes, or the sources of local funds are changing?
21. If new transit service or an expansion of existing service is planned, have those plans been reflected in financial plans?
22. Are there any concerns related to assumptions or projections the recipient has made to demonstrate it has the required financial capacity to execute the FTA program? Are projects delayed due to difficulties with securing local share?
23. Do the recipient's procedures for financial oversight of subrecipients appear likely to provide sufficient assurance of the financial controls, management, and capacity of subrecipients?
24. Did background research or site visit observations reveal any potential financial management or capacity issues or concerns not already covered in this section?

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

1. Flexible Funds: FHWA and FTA Programs
2. Revenue Bonds
3. Debt Service Reserve Financing
4. Electronic Clearing House Operation (ECHO) Web User Manual for FTA and FAA
5. Federal Audit Clearinghouse (FAC)
6. A Guide for States and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government

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
 - g. If the recipient uses in-kind costs as match, request ECHO drawdown where such costs were used
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, in-kind charges, 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. If documentation includes indirect cost, review cost allocation plan to confirm the correct rate was used.
 - 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.

