

FUNDAMENTAL FINANCIAL MANAGEMENT

for Rural Transit Providers



National
RTAP 
Rural Transit Assistance Program

A technical assistance program of the Federal Transit Administration

888.589.6821 | info@nationalrtap.org | nationalrtap.org

ACKNOWLEDGEMENTS

This manual and training course was developed as an update to the Fundamental Financial Management Training for Rural and Small Urban Public Transportation Providers course prepared by Richard Garrity at RLS & Associates, Inc. and sponsored by the National Rural Transit Assistance Program (National RTAP) in 2006. The American Association of State Highway and Transportation Officials' (AASHTO) Multi State Technical Assistance Program (MTAP) was also involved in the development of the original course.

The preparation of this updated manual was financed through a contract awarded by National RTAP, a program of the Federal Transit Administration (FTA). The opinions, findings, and recommendations expressed in the course materials do not necessarily reflect the position of the FTA or National RTAP.

We wish to thank and acknowledge the contributions of the following National RTAP Review Board Members:

- Marcele Edington, Michigan Department of Transportation, Lansing, MI
- Katharine Mitchell, Regional Transportation Authority of Pima County, Tucson, AZ
- Amy Rast, Vermont Agency of Transportation, Barre, VT
- Kari Ruse, Nebraska Department of Transportation, Lincoln, NE
- Curtis Sims, Jr., CSSO, South Carolina Department of Transportation, Columbia, SC

The updated training and its related products were created by a team of consultants, in collaboration with National RTAP staff, including:

- RLS & Associates, Inc.
- Texas A&M Transportation Institute

Richard Garrity of RLS & Associates wrote this new manual, basing it on the 2006 version but adding significant new content, content that he culled from his many years working with transit providers and state departments of transportation nationwide on the topics contained herein. Researchers at the Transit Mobility Program at the Texas A&M Transportation Institute assisted in finalizing the update and introducing additional material from their Making Dollars & Sense of Transit Finance course.

In addition, information was drawn from the following resources:

- Federal Transit Administration
- United States Department of Transportation
- Office of Management and Budget
- General Accountability Office

For more information about National RTAP and available training and technical assistance resources, visit www.nationalrtap.org, email info@nationalrtap.org, or call 888-589-6821.

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CHAPTER I: INTRODUCTION

In the long run managements stressing accounting appearance over economic substance usually achieve little of either.

- Warren Buffett

To state the facts frankly is not to despair the future nor indict the past. The prudent heir takes careful inventory of his legacies and gives a faithful accounting to those whom he owes an obligation of trust.

- John F. Kennedy

Goals of This Chapter

As a recipient of federal grant funds, rural transit agencies owe an obligation of trust to the community and other institutions that have made the Formula Grants for Rural Areas Program possible. When transit succeeds, it is due to a combination of good planning, strong financial planning, sound accounting, committed human resources, and audit transparency. Alternatively, when transit fails, the cause is often the financial failings of management rather than a poor service design.

This manual is designed to assist rural, small urban, and tribal transit agencies improve financial management practices. The document covers a range of topics including, but not limited to, cross-cutting federal requirements, practical suggestions, and typical issues facing rural transit managers.

This introductory chapter presents information on why such practices are essential, the role of various personnel in effecting sound financial management, and an outline of the overall structure of the manual. The manual emphasizes the importance of well-developed fiscal policies and internal controls. Information contained in this chapter is intended to provide transit managers with a thorough understanding of the principles of sound financial management planning, policy development, and procedure implementation.

This chapter will provide an overview of:

- The benefits and principles of good financial management
- The elements of effective financial management systems
- The roles of organizational leaders and senior managers in financial management
- The potential risk of insufficient internal controls
- Key questions to consider during financial planning

Introduction

The financial future of any organization relies on the ability of administrators and senior managers to provide a stable foundation of sound and transparent financial management policies and procedures. Finances are at the core of every enterprise, from purchasing materials and supplies, to paying staff, and ultimately, delivering value to stakeholders.

State departments of transportation (DOTs) are responsible for determining the capacity of subrecipients to administer grant funding in a manner consistent with a project scope; any decision to award a grant is predicated on a decision-making process that effectively evaluates the technical, managerial, and financial capacity of the applicant. The Federal Transit Administration (FTA) holds DOTs accountable for the ability of subrecipients to administer grant funding correctly.

Financial management is more than maintaining accounting or grant records; it is an essential part of organizational management and cannot be seen as a separate task left solely to finance staff. Sound financial management involves long-term strategic planning and short-term operations planning as well as organizing, controlling, and monitoring financial resources to achieve organizational objectives.

The audiences of this manual include staff members from transit agencies of different sizes and service districts, including rural and small urban transit agencies, specialized transportation providers, and tribal transit programs. This manual applies for any federally assisted transit program. Any examples or references to an independent agency or to a department in a larger organization apply to any type of organizational structure.

Benefits and Principles

Good financial management will help transit agencies:

- Make effective and efficient use of resources.
- Achieve objectives and fulfill commitments to stakeholders.
- Become more accountable to donors and other stakeholders.
- Gain the respect and confidence of funding agencies, partners, and beneficiaries.

- Gain advantage in competition for increasingly scarce resources.
- Protect the assets of the organization.
- Ensure the maintenance of accurate records of the organization's financial activities.
- Prepare for long-term financial sustainability.
- Serve as a training resource for staff.
- Ensure compliance with federal, state, and local legal and reporting requirements.

This is only a partial list of benefits to sound financial management of a transit program.

Principles of Effective Financial Management Systems

There is no one model of a financial management system that suits all transit agencies, but there are basic principles that must be in place to ensure adequate and effective financial management:

- **Consistency:** Organizational financial policies and systems must remain consistent over time.
- **Accountability:** The organization must be able to explain and demonstrate to all stakeholders how resources have been used and what achievements have been accomplished.
- **Transparency:** The organization must be open about its work and its finances, making information available to all stakeholders.
- **Integrity:** Individuals in the organization must operate with honesty and propriety.
- **Financial Stewardship:** The organization must take good care of the financial resources it has been given and ensure that they are used for the purpose intended.
- **Accounting Standards:** The organization's system for keeping financial records and documentation must observe accepted accounting standards.

Good financial management practices provide a clear strategy and set minimum standards for how the organization, and its employees, will safeguard the public trust inherent in receiving grant funding.

Key Organizational Roles

Every agency is organized in a manner that is suited to the size and mission of the organization. Transit programs can be a standalone program or one program of a larger organization. Many transit agencies are multidimensional in their mission and in the service they provide for the community. As such, smaller organizations may not have some of the roles mentioned below; however, the responsibilities and impact described are universal.

The Governing Board

The National Council of Nonprofits has articulated three clear principles of the legal duties of a governing board: duty of care, duty of loyalty, and duty of obedience. In carrying out these principles, Board members are responsible for:

- Taking care of the organization by ensuring prudent use of all assets, including facilities, people, and good will; and providing oversight for all activities that advance the effectiveness and sustainability of the organization (duty of care).
- Making decisions that are in the best interest of the organization and community, and that are not driven by self-interest (duty of loyalty).
- Ensuring that the organization is complicit in all applicable laws and regulations regarding ethical behavior, purpose, mission, and activities (duty of obedience).

Board members are the fiduciaries who steer the organization toward a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the organization has adequate resources to advance its mission.

In this case of public entities, the governing board is likely to be comprised of elected officials, and will be subject to the laws and regulations governing counties and municipalities established by the state legislature.

Chief Executive Officer

The chief executive officer (CEO) (or equivalent, such as executive director, director, or general manager) is the most important role in the management of an organization. The CEO is responsible for leading the development and execution of the organization's long-term strategy with a vision that creates stakeholder value. This leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the agency's long- and short-term plans. The CEO acts as a direct liaison between the governing board and management of the agency and communicates to the Board on behalf of management. The CEO also communicates on behalf of the company to stakeholders, employees, government authorities, and the public.

Chief Financial Officer

The chief financial officer (CFO) (or equivalent, such as vice president of finance, finance director, or treasurer) is the person who exercises leadership in the most senior financial management position in the organization. As part of good governance, organizations should place the responsibility of sound and ethical financial management and reporting, and more broadly the efficient and productive use of resources, under the oversight of a person with the necessary skills, qualities, and professional standards. The training, expertise, and experience professional accountants bring to the CFO role should be seen as an advantage specifically in terms of uniting an ethical and technical mindset together with business acumen.

Senior Managers

Senior managers are responsible for planning and directing the work of a group of individuals, monitoring their work, and taking corrective action when necessary. Senior managers may guide workers directly or they may direct several supervisors who manage the workers. Core responsibilities of the senior manager include ensuring that financial management policies are implemented within their workgroups, providing input and information to executive leadership regarding the effectiveness of policies, tactical planning measures to ensure alignment with strategic financial management policies, and creating a culture of ethical behavior for employees engaged in financial functional roles.

Supervisors

Where executive administrators and senior managers focus their efforts on improving the strategic financial position within the organization, supervisors have the primary responsibility of ensuring that day-to-day tasks are completed and policies refined in alignment with organizational objectives. Supervisors work with senior managers to establish performance monitoring guidelines and to ensure that employees are meeting those standards as efficiently as possible.

Functional/Front-Line Employees

The employees in a functional area of the company have a specific role in the department to further the goals of the company. For example, the accounting department divides the work among staff, such as accounts payable and receivable clerks. Human resource employees may specialize in an area of the functional department, such as compensation, training, or employee benefits.

Exhibit 1.1. Examples of Financial Mismanagement: It Can Happen to Your Organization

<p>The executive director and the chairman of the board of a nonprofit organization knowingly secured a loan to cover unfunded expenses of the organization by using a federally-funded facility as collateral to the loan. The agency defaulted on the loan, and the agency director was subsequently indicted on criminal charges.</p>	<p>The executive director and chairman of the board violated federal grant management requirements that prohibit encumbrance of a federally funded asset.</p>	<p>The executive director eventually pled to one charge and made restitution of \$75,000 in lieu of other charges being prosecuted.</p> <p>The nonprofit organization collapsed and responsibility for rural transit services was halted until the state DOT could find another operator.</p>
<p>Over a five-year period, an accounts assistant in a rural transit agency fraudulently created invoices and funneled agency funds to a contractor (a company owned by the assistant's husband). Written on agency checks, the assistant created a stamp emulating authorized check signatures.</p>	<p>This organization exhibited insufficient internal controls, contrary to federal grant management requirements where the work of a single employee was not sufficiently monitored and approved by superiors.</p>	<p>This individual was sentenced to three months in jail, followed by three months of home confinement and five years' probation, and was ordered to pay \$247,785 in restitution.¹</p>
<p>Over an eight-year period, the CEO of a rural transit agency, in cooperation with one of the agency's maintenance vendors, participated in a scheme where the vendor would overbill the agency for vehicle repairs, the CEO authorized the invoice and payment, and the vendor provided a partial kickback of the payment to the CEO.</p>	<p>Agency employees were not empowered to report the fact that nonstandard practices were used to process invoices, in violation of federal grant management requirements.</p>	<p>The CEO was sentenced to 18 months' incarceration and 24 months' supervised release, and was ordered to pay \$380,000 in restitution, \$380,000 in forfeiture, and a \$50,000 fine.²</p>

Notes:

¹ <https://www.oig.dot.gov/library-item/33808>

² <https://www.oig.dot.gov/library-item/33715>

Source: Investigations Information from Office of the Inspector General, U.S. Department of Transportation.

Risks of Insufficient Internal Controls

Importantly, management must also be aware of the consequences of not adhering to a disciplined approach to the agency's financial affairs. While the overwhelming majority of rural and specialized transit agencies do a good job in managing the financial aspects of their operations, there are nevertheless notable examples of misuse of federal grant funds, which, in some cases, may result in the cessation of rural transit services. In each of the examples identified in Exhibit 1.1, adverse publicity accompanied these instances of fiscal mismanagement.

Key Questions to Consider

Planning for effective financial management is a deliberate and ongoing process with a diverse and challenging group of stakeholders. However, there are some questions the organization can ask to find the right planning direction:

- Are we satisfied with our budgeting process and other financial planning?
- What objectives are our financial management systems designed to meet? Is the link clear in practice?
- What are our key principles for financial management?
- How do our staff respond to the financial management system? Do people use it? Is it a live tool?
- Does our financial management system enable effective decision making when allocating resources?

Organization of this Manual

In the chapters that follow, this manual will address a range of important general financial management requirements imposed on recipients/subrecipients of any type of federal grant program and specific FTA requirements associated with the Section 5311, Section 5310, and tribal transit programs:

- Chapter 2 – Super Circular (2 CFR Part 200)
- Chapter 3 – Foundation Elements: Accounting and Chart of Accounts
- Chapter 4 – Understanding Direct and Indirect Costs
- Chapter 5 – Cost Allowability Under FTA Awards
- Chapter 6 – Local Match to FTA Grant Awards
- Chapter 7 – Contributions and Donations
- Chapter 8 – Cash Management
- Chapter 9 – NTD Reporting Requirements
- Chapter 10 – Audit

Chapter Summary

The success of any transit organization will rest, in large measure, on a sound financial foundation. Building this foundation should include multiple individuals; this is not the sole responsibility of the CFO. The governing board, agency director, finance officer, senior managers, and other key personnel play a critical role.

The benefits of sound financial management include making efficient use of limited resources, becoming more accountable to funding agencies and donors, protecting the assets of the organization, and complying with various federal requirements and regulations.

There is no one best financial management model for transit agencies, but organizations that incorporate consistency, accountability, transparency, integrity, stewardship, and accounting standards in their practices will perform better than peers that do not embrace these principles.

Notes

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 2: SUPER CIRCULAR (2 CFR PART 200)

The changes in the uniform guidance are extensive, and the Super Circular itself is voluminous and will take time to absorb. Therefore, developing a proactive, well-coordinated plan within your organization will help ensure a smooth transition.

- Deby MacLeod, Clark Nuber

The adverse consequences of failure to adequately implement the grants reforms can be severe, potentially resulting in disruptions of service that hurt the public, add costs, create negative audit findings and delay the realization of intended benefits of the federal grants reforms.

- David L. Thompson, National Council of Nonprofits

Goals of this Chapter

The Office of Management and Budget (OMB) published 2 CFR Part 200, commonly known as the Super Circular, in 2013 to supersede and streamline requirements from previous circulars.¹ The Super Circular provides guidance on allocation of costs to federal awards including the Section 5311 and Section 5307 programs. Transit agencies must follow the requirements and cost allowability principles of the Super Circular in their financial management systems.

This chapter is designed to ensure that transit agencies understand the fundamental rules that form the foundation for all FTA grant awards.

This chapter will review:

- The role of OMB in federal grants management and guidance circulars
- Goals and major changes from the Super Circular
- Guidance on cost allowability principles
- Applicable credits and rebates
- References to non-federal entities, grantees, recipients, subrecipients, contractors, and vendors
- The concept of profit under federal awards
- Audit and auditee responsibilities

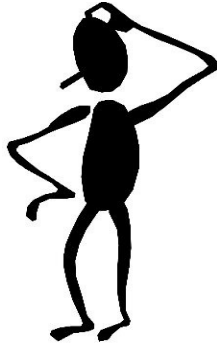
The Super Circular can be found at: https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

¹ 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Role of OMB in Grants Management

The Super Circular is not a circular at all, but rather the codified rules promulgated by the OMB that govern most aspects of grant management activities.

The mission of OMB is to assist the President in overseeing the preparation of the federal budget and to supervise its administration in executive branch agencies. As part of this administrative responsibility, OMB has played a longstanding role in federal grants management in the following areas:



- Cost principles
- Administrative requirements
- Audit

Previously OMB had published six separate circulars dealing with financial management requirements for various federal grant programs:

- OMB Circular A-87 – Cost Principles for State, Local, and Indian Tribal Governments
- OMB Circular A-122 – Cost Principles for Non-Profit Organizations
- OMB Circular A-21 – Cost Principles for Educational Institutions
- OMB Circular A-102 – Grants and Cooperative Agreements with State and Local Governments
- OMB Circular A-122 – Cost Principles for Nonprofit Organizations
- OMB Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations

A group known as the Council on Financial Assistance Reform (COFAR), an interagency group of Executive Branch officials established in 2011, guided the rulemaking development process to streamline federal

cost principle, administrative, and audit requirements. After three years of deliberation by the COFAR, OMB published new guidance in the Federal Register on December 26, 2013. The rulemaking consolidated six previous circulars into one Super Circular officially titled Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. These requirements can be found in the Code of Federal Regulations (CFR) at 2 CFR Part 200.

Consolidation of Circulars

The new guidance consolidated guidance that was previously contained in multiple circulars (Exhibit 2.1). The new guidance is divided into six subparts:

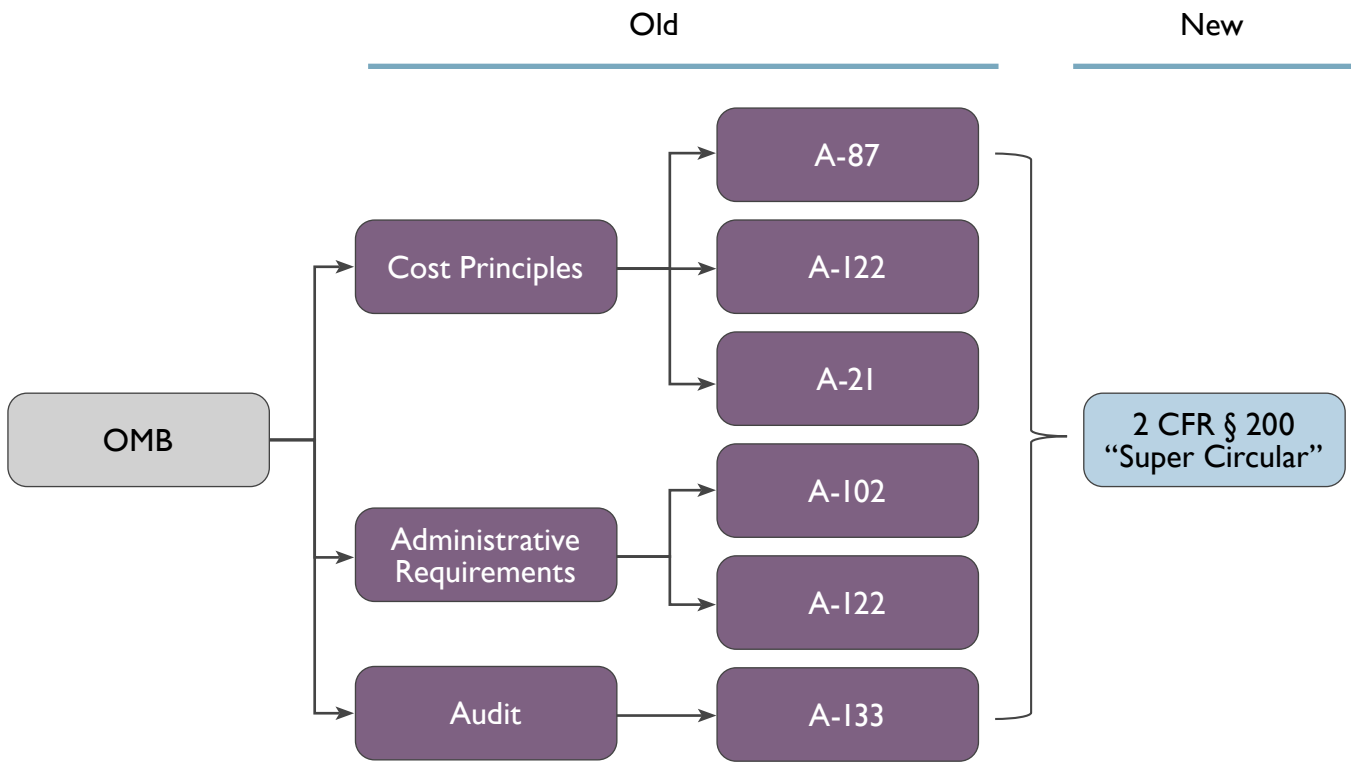
- Subpart A: Definitions and Acronyms
- Subpart B: General Provisions
- Subpart C: Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D: Post Federal Award Requirements
- Subpart E: Cost Principles
- Subpart F: Audit Requirements

Why is the Guidance Important?

Any federal grant received by transit agencies from their state DOT or directly from the Federal Transit Administration (FTA) is subject to the terms and conditions of the Super Circular. FTA updated and renamed FTA Circular 5010.1E, Award Management Requirements, primarily to conform with 2 CFR Part 200. Effective July 16, 2018, FTA Circular 5010.1E assists recipients in administering FTA-funded projects and in meeting award responsibilities and reporting requirements. Recipients have a responsibility to comply with regulatory requirements and to be aware of all pertinent material to assist in the management of federally assisted awards.

Thus, any grant received directly or indirectly under an FTA program must adhere to the Super Circular.

In addition to cancelling all circulars cited in Figure 2-1, other key guidance was also canceled for any FTA grants executed on or after December 26, 2014. The U.S. DOT Common Rules, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local



Governments, implemented by OMB Circulars A-102 and A-122, are no longer applicable.² Circular A-102 (for states, local governments, and American Indian tribal organizations) is found at 49 CFR Part 18, and Circular A-122 (for nonprofit organizations) is found at 49 CFR Part 19. Both circulars are no longer applicable. These documents are replaced by 49 CFR Part 1201, which effectively embraced all elements of the Super Circular, with a few minor exceptions (noted later in this section).

Circular Implementation and Effective Dates

Once published in the Federal Register, the Super Circular had a one-year implementation period, making the effective date December 26, 2014.

U.S. DOT/FTA opted to interpret the effective date of the Circular and its applicability to grants based on the effective date of execution of the grant. Grants and cooperative agreements executed prior to December 26,

2014, shall continue to be subject to 49 CFR parts 18 and 19 and previous OMB guidance; only grants executed on or after December 26, 2014, are subject to the Super Circular.

OMB estimates that the Super Circular will impact more than \$500 billion in annual grant awards.

If the grant with FTA was executed before December 26, 2014...

- Follow old OMB guidance (e.g., OMB Circular A-87, A-122) throughout the life of the grant.

If the grant with FTA was executed on or after December 26, 2014...

- Follow 2 CFR § 200 throughout the life of the grant.

² 49 CFR Part 1201.1.

Goals of the Super Circular

In releasing the new guidelines, the COFAR noted the following goals for making major changes to the grants management landscape:

- Eliminate duplicative and conflicting guidance
- Focus on performance over compliance for accountability
- Encourage efficient use of information technology and shared services
- Provide for consistent and transparent treatment of costs
- Limit allowable costs to make the best use of federal resources
- Set standard business processes using data definitions
- Encourage nonfederal entities to have family-friendly policies
- Strengthen oversight
- Target audit requirements on risk of waste, fraud, and abuse

OMB has stated that the rulemaking does not represent major changes to grant management procedures, but merely reflects a re-organization of existing rules. In reality, the Super Circular has substantial changes in federal procedures for FTA grant programs.

Major Changes in the Super Circular

Nomenclature: With the consolidation of circulars, OMB has adopted use of the term Non-Federal Entity (NFE) to describe organizations that carry out a federal award as a recipient or subrecipient (e.g., a state, local government, Indian tribe, institution of higher education [IHE], or nonprofit organization).

Risk: A federal agency must now take into account risk in making an award to an NFE. The NFE recipient of

a federal grant is responsible for evaluating the risk of a subrecipient (discussed later in this chapter). In using a risk-based approach, the awarding federal agency may use the following factors in determining an applicant's risk:

- Financial stability.
- Quality of management systems and ability to meet the management standards prescribed in this part.
- The applicant's record in managing federal awards, if it is a prior recipient of federal awards, including timeliness of compliance with applicable reporting requirements, conformance to the terms and conditions of previous federal awards, and if applicable, the extent to which any previously awarded amounts will be expended prior to future awards.
- Reports and findings from audits performed under Subpart F—Audit Requirements or the reports and findings of any other available audits.
- The applicant's ability to effectively implement statutory, regulatory, or other requirements imposed on NFEs.³

Mandatory Disclosures: The Super Circular requires an applicant to make new, mandatory Conflict of Interest (COI) disclosures.

Internal Controls: The new guidance essentially shifts the burden and responsibility for internal control from the audit phase of the project to the beginning of the project. Management at the NFE must ensure it implements adequate internal controls before, not after, the grant has been received.

Uniform Definitions: The Super Circular issues standardized definitions for items that, heretofore, may have been defined differently by each federal awarding agency. This guidance should be extremely helpful, particularly to organizations that receive grant funds under multiple program awards.

Acceptance of Approved Indirect Cost Rates: If an NFE has had the indirect cost rate proposal approved by a cognizant federal agency, then the rate must be accepted by all federal awarding agencies. This means that a federal awarding agency may not cap or otherwise limit the percentage of indirect costs claimed under federal awards.

³ 2 CFR Part 200.205(c)(1)-(5).

Definition of “Supplies”

Clarification of some definitions should be very helpful. For example, “Supplies” are now defined uniformly as all tangible personal property (other than equipment). Computing devices are now classified as a supply if the acquisition cost is less than \$5,000, regardless of the length of its useful life.

Note: An NFE may set a capitalization level less than \$5,000; however, as this level is consistent with FTA policy, it is a best practice to adopt the standard now articulated in 2 CFR Part 200.94.

One issue with indirect cost rates prior to the Super Circular was that federal awarding agencies would cap the amounts that could be claimed under a federal award. For example, a grant recipient may have had an approved indirect cost rate of 14.5 percent, approved by a cognizant federal agency. Yet, under another award, the federal awarding agency capped indirect costs at 10 percent.

Under 2 CFR Part 200.414(c)(1), previously “negotiated rates must be accepted by all federal awarding agencies” unless otherwise prohibited by statute.

New Indirect Cost Rate: Any nonprofit organization or public entity (with qualifications) that has never received a negotiated indirect cost rate from a cognizant federal agency may now claim a flat rate of 10 percent of their Modified Total Direct Costs (MTDC)—without having to prepare an indirect cost rate proposal.

The purpose behind this new “de minimis rate” is to provide an easier path for some nonprofit organizations to claim indirect costs under federal grant awards. The entity need only inform the federal awarding agency that it is claiming the de minimis rate.

Declaring the de minimis rate means that the entity does not have to prepare and submit an indirect cost rate proposal to the cognizant federal agency for indirect costs. However, federal awarding agencies are responsible for ensuring that the grant recipient is properly computing the amounts of indirect costs allowable under the federal grant award.

Audit Threshold: Effective for fiscal years that began after

December 26, 2014, the threshold to prepare a single audit pursuant to federal audit requirements was raised from \$500,000 to \$750,000.

OMB estimates that as many as 5,000 entities no longer will have to prepare the federally required audit, yet this requirement will still result in audit of over 99 percent of all funds awarded under federal grants.

Federal Cost Principles Contained in the Super Circular

While all elements of the Super Circular have applicability to any recipient of federal funds, this manual will focus on those requirements in Subpart E, “Cost Principles.”

Federal awarding agencies do not dictate the accounting practices of any NFE recipient or subrecipient; however, every recipient must adopt policies and practices that ensure adherence to the basic principles outlined in 2 CFR Part 200.400 – 200.455.

The Circular notes:

The accounting practices of the Non-Federal Entity must be consistent with these cost principles and support the accumulation of costs as required by the principles and must provide for adequate documentation to support costs charged to the Federal award.

Relationship with FTA Circulars

These standards apply to all FTA grants; however, this may be difficult to document, as many of the program circulars (issued prior to the Super Circular) have not yet been updated by FTA. The main FTA grant program circulars relevant for transit agencies are:

- FTA Circular 9030.1E – Urbanized Area Formula Program: Program Guidance and Application Instructions (January 16, 2014)
- FTA Circular 9040.1G – Formula Grants for Rural Areas: Program Guidance and Application Instructions (November 24, 2014)
- FTA Circular 9070.1G – Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions (July 7, 2014)
- FTA Circular 5100.1 – Bus and Bus Facilities Formula

Program Guidance and Application Instructions (May 18, 2015)

■ FTA Circular 5010.1E – Award Management Requirements (Revised July 16, 2018)

The FTA Circular 5010.1E, Chapter VI, § f(3)b)(5), affirms the applicability of the Super Circular, but with some qualification, on the effective date:

Applicable Office of Management and Budget (OMB) cost principles of 2 CFR part 200 for Awards made on or after December 26, 2014, and OMB cost principles for Awards made before December 26, 2014, as stated in former 2 CFR parts 220, 225, and 230, as applicable. U.S. DOT program regulations, and the terms of the Grant or Cooperative Agreement or other written agreement with the subrecipient, must be followed in allowability and allocability of costs.

When the individual program circulars are next updated by FTA, reference to the applicability of the Super Circular will be addressed.

Seeking Reimbursement Under Federal Grant Awards

When seeking reimbursement under any federal award, including awards from FTA, the NFE is entitled to be reimbursed for the total of documented directed costs plus indirect costs, less any reductions in costs, known as credits or rebates. The Super Circular defines a grant project's total cost as:

$$\text{Total Cost} = \text{Total Direct Costs} + \text{Allocable Portion of Indirect Costs} - \text{Credits/Rebates}$$

This formula explains that the composition of total costs eligible for reimbursement under any federal grant award is the sum of direct costs, plus the allocable portion of indirect costs (consistent with the rate established in an approved indirect cost rate plan), minus any credits or rebates.

Applicable Credits and Rebates

Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the federal award as direct or indirect costs. Examples of such transactions are:

- Purchase discounts
- Rebates or allowances
- Recoveries or indemnities on losses
- Insurance refunds or rebates
- Adjustments of overpayments or erroneous charges

To the extent that such credits accruing to or received by the NFE relate to allowable costs, they must be credited to the federal award either as a cost reduction or cash refund, as appropriate.

A rebate is an amount received by way of reduction or refund on a good or service for which the purchaser has already paid. Think of the various sales promotions that marketers use as incentives for product sales. For example, a transit agency may buy a laptop computer from a local office supply retailer; the manufacturer may offer a Mail-In Rebate (MIR) on a model to improve sales.

The transit agency mails in documentation of the purchase (receipt, Universal Product Code, etc.) and the manufacturer mails a check in the amount of the promised rebate. The value of rebates and similar credits must be applied in the amount charged to a federal grant.

Example:

Laptop Price	\$649.00
Rebate	(\$50.00)
Net Price	(\$599.00)
Amount to be Charged to Grant	\$599.00

Pass-Through

In some cases, a state may choose to grant Section 5311 assistance to a subrecipient through an intermediary subrecipient. For example, for public policy reasons, the state might pass funds to a nonprofit organization through a local governmental authority. The arrangement between the first tier and second tier subrecipient is not a third-party contract if the ultimate subrecipient would otherwise be eligible under Section 5311 to receive funds directly from the state and the ultimate subrecipient intends to use those funds to pursue its own rural area transit project.

Source: FTA Circular 9040.1G, Chapter V

References to Recipients in the Grants Management Guidance

One of the more confusing elements in the grant management guidance is the large number of terms used to describe a recipient of federal grant funds. As noted previously, all recipients of federal grant awards are NFEs.

In public transportation, additional confusion exists as FTA has historically used the term “grantee” interchangeably with “recipient,” “grant recipient,” and “direct recipient.”⁴ FTA practices in this regard reflect the agency’s longstanding history as a federal awarding agency and the designation process embodied in federal transit law. For purposes of this manual, the terms recipient and subrecipient are more consistent with guidance used in the Super Circular.

Most rural, specialized, and tribal transit agencies are **subrecipients**; funds are received through grant awards made by a state DOT. In this relationship, the state DOT is the recipient and the entity receiving a grant from the state is the subrecipient. In some cases, a state DOT may be prohibited from making a grant award to a nonprofit organization, even if the organization provides public transportation services in their community.

In these cases, the state DOT may make an award to a county, which in turn passes the funds to a lower-tier

subrecipient to carry out the project. FTA describes this scenario in FTA Circular 9040.1G, Chapter V, §5a.

For example, the Illinois Department of Transportation (IDOT) is limited by statute to award public transportation grants to local governments and mass transit districts. In many counties, however, private nonprofit (PNP) organizations operate rural transit programs. In this case, IDOT passes funds through to a county government, which in turn enters into agreement with the nonprofit organization to undertake the project.

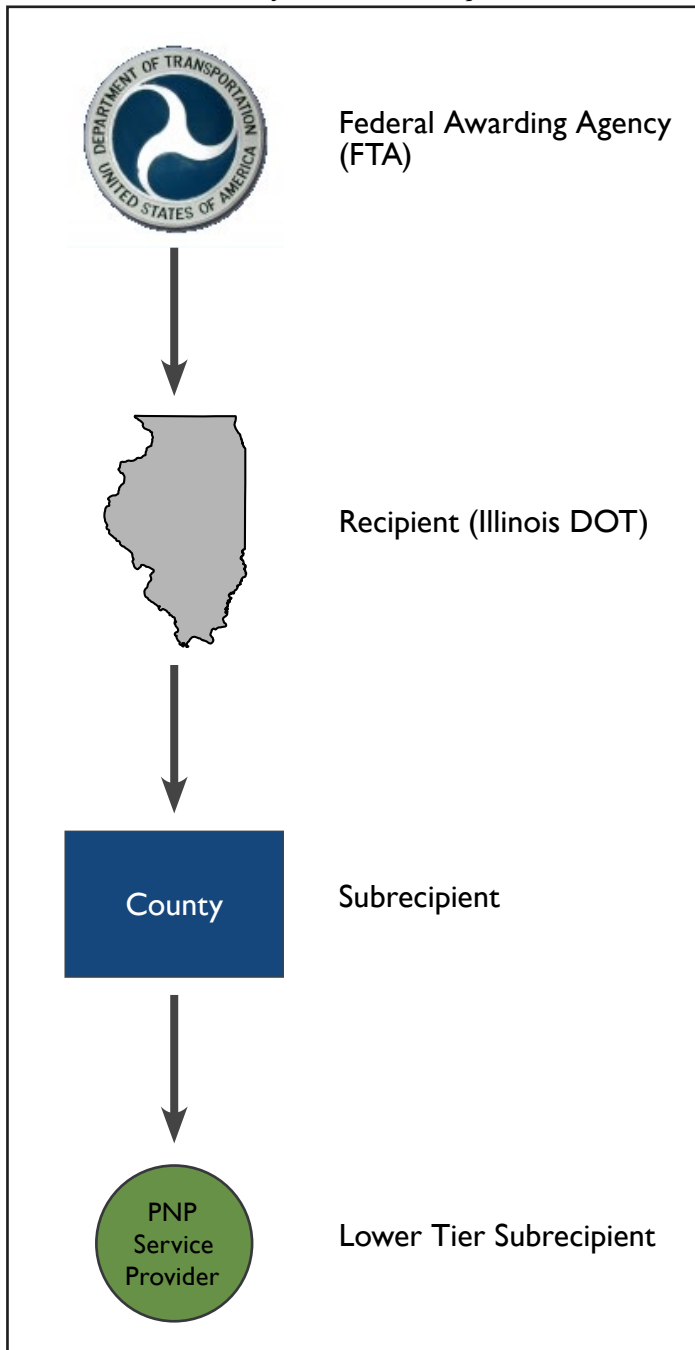
Often, NFEs receive federal awards and coordinate the activities of other organizations that have more specialized expertise that may be needed to carry out the objectives of the grant. FTA makes clear such arrangements are possible, provided the lower-tier entity is otherwise eligible to receive Section 5311 funds. In the Illinois example: (1) the nonprofit agency is eligible under federal guidelines to be a subrecipient of Section 5311 funds; (2) and the private nonprofit entity intends to use Section 5311 funds to support a countywide, rural public transportation project.

FTA further notes that such grant relationships are **not third-party contracts**. This is a critical determination, as it means the county does not have to conduct a procurement to utilize the services of the nonprofit organization. In the example cited, IDOT is the **recipient**, the county is the **subrecipient**, and the nonprofit organization is a **lower-tier subrecipient**.

While FTA procurement regulations will not apply in this scenario, any time a pass-through relationship exists, there are obligations that the entity that provides funds to a lower-tier entity must adhere to in providing oversight of the grant.

⁴ FTA Circular 5010.1E, Chapter I, § 5a(73).

Exhibit 2.2. Illustration of Grant Relationships



Monitoring Responsibilities

The entity passing funds to a lower-tier entity must:

- Provide detailed information about the grant program funds being used in the project.
- Delineate all federal requirements that must be addressed in the performance of the grant.
- Determine the lower-tier entity's indirect cost rate or use of the de minimis rate.
- Permit access by auditors to record and financial documents related to performance of the grant.
- Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate level of on-going subrecipient monitoring.
- Determine any additional conditions the pass-through entity will impose on the lower-tier entity.
- 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.
- Verify that the lower-tier entity conducts audits, as required.
- Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate any adjustments to the pass-through entity's records.
- Take appropriate action when the lower-tier entity is found not to be compliant.

A subrecipient monitoring checklist is included as an attachment to this chapter to assist pass-through entities comply with these requirements. Some of these requirements can create confusion among recipients.

Communicating Federal Requirements to Lower-Tier Entities

As any recipient of FTA funds is aware, the scope of applicable terms and conditions that will apply to any lower-tier agreement can be extensive, even overwhelming. The FTA Master Agreement outlines federal requirements that apply to lower-tier agreements and conditions governing the administration of a project supported with FTA funds. In some cases, a pass-through entity, in the interests of economy, may attempt to meet the requirement to “delineate all federal requirements that must be addressed in the performance of the grant” by including a clause in the agreement that may read as follows:

All elements of the primary agreement between FTA and the recipient are hereby incorporated by reference.

Use of such language may be legal, but this does not represent a best practice. Some guidance directed at third-party contracts (not pass-through agreements) for lower-tier contracts can be gleaned from the FTA response in its Procurement “Frequently Asked Questions” on use of this language:

It is not acceptable to simply reference the Master Agreement and leave contractors the responsibility to decide which statutes and regulations apply to that particular contract (note that many may not apply). Grantees cannot avoid the responsibility for determining which requirements apply (e.g., Buy America) and so stating in their solicitations and contracts with suitable contract language, as well as representations and certifications.⁵

Applying this response to pass-through agreements means that the recipient must include all applicable Master Agreement terms and conditions in the agreement executed with the lower-tier entity.

Evaluating Subrecipient Risk of Noncompliance

Some entities that have historically passed-through grant funds to a lower-tier entity to carry out the project have expressed concerns regarding the obligation to “evaluate each subrecipient’s risk of noncompliance.”

While nothing precludes a pass-through entity from conducting the equivalent of a Triennial Review to conduct level of oversight over lower-tier subrecipients, the Super Circular goes on to provide some guidance on what must be done to comply with this requirement. A primary recipient can use the following factors to assess risk:

- Evaluate whether the lower-tier entity has any prior experience with the same or similar subawards.
- Examine the results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F of the Super Circular and the extent to which the same or similar subaward has been audited as a major program.
- Evaluate the lower-tier entity’s organizational chart to determine if the subrecipient has new personnel or new or substantially changed systems.
- Review the extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

Establishing the Status of Lower-Tier Entities

The task of determining the status of a lower-tier entity as subrecipient or a contractor is not necessarily easy, as an entity can be a recipient, subrecipient, and a contractor—all in a single fiscal year.

Is a Vendor the Same as a Subcontractor?

Many entities use the term vendor to distinguish the entity from subrecipients. Vendor is not used in the Super Circular; OMB uses the term contractor for purposes of consistency and clarity. OMB notes that these two terms have the same meaning.⁶

Making Case-by-Case Determinations

As described in the Super Circular, it is the substance of the award that determines how it should be treated, even though the pass-through entity or NFE receiving the award may call it by a different name. This means that if a pass-through entity makes an award that it calls a

⁵ <https://www.transit.dot.gov/funding/procurement/third-party-procurement/contract-clauses>

⁶ Frequently Asked Questions, Updated: July 2017 for the Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. <https://www.dol.gov/oasam/boc/dcd/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf>

contract, but which meets the criteria to be a subaward to a subrecipient, the NFE must comply with the provisions relevant to subawards, regardless of the name used by the pass-through entity to refer to the award agreement. Exhibit 2.3 provides further guidance on this topic.

Impacts on the Intercity Bus Program

Most awards made by a state DOT will clearly be defined as a recipient/subrecipient relationship. However, under the Section 5311(f) Intercity Bus Program, some ambiguity may exist.

FTA gives states an option on the nature of the relationship between the state and the intercity bus operator:

The definition of a subrecipient in Section 5311(a)(2) includes an operator of intercity bus service that receives Federal transit program grant funds through a state or Indian tribe that is a recipient. In some instances, intercity bus providers may be unwilling or unable to accept the

*terms and conditions the state applies to subrecipients and may prefer to maintain a contractual relationship, in order to isolate the remainder of their operations from Federal requirements related to a grant. **The state may use either mechanism to provide assistance to private operators for intercity bus service.***⁷

Some states have expressed frustration in the Section 5311(f) program in attempts to treat intercity bus providers as subrecipients. Some contract administration and oversight issues can be resolved if this guidance is implemented and the relationship is structured as a contract, rather than as a subrecipient.

Exhibit 2.3. Subrecipient vs. Contractor Determinations

Subrecipient	Contractor
A subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship with the subrecipient (see 2 CFR Part §200.92 Subaward). Characteristics that support the classification of the non-federal entity as a subrecipient include when the non-federal entity:	A contract is for the purpose of obtaining goods and services for the non-federal entity’s own use and creates a procurement relationship with the contractor (see 2 CFR Part §200.22 Contract). Characteristics indicative of a procurement relationship between the non-federal entity and a contractor are when the non-federal entity receiving the federal funds:
(1) Determines if an entity is eligible to receive what federal assistance;	(1) Provides the goods and services within normal business operations;
(2) Has its performance measured in relation to whether objectives of a federal program are met;	(2) Provides similar goods or services to many different purchasers;
(3) Has responsibility for programmatic decision making;	(3) Normally operates in a competitive environment;
(4) Is responsible for adherence to applicable federal program requirements specified in the federal award; and	(4) Provides goods or services that are ancillary to the operation of the federal program; and
(5) In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.	(5) Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons.

Source: 2 CFR § 200.330(a)-(b).

⁷ FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter VIII § 6.

The Concept of Profit Under Federal Grant Awards

Federal grant awards are intended to carry out the specific purposes of the grant award, typically dictated in federal legislation. The Super Circular prohibits a grant recipient from earning profit from a federal grant award.

2 CFR Part 200.400(g) states:

The Non-Federal Entity may not earn or keep any profit resulting from Federal financial assistance, unless expressly authorized by the terms and conditions of the Federal award.

Grant funds must be used to support the costs of carrying out the grant. FTA grant agreements are typically cost reimbursement type agreements. This means the NFE must expend the funds and then seek reimbursement under the terms of the grant award. If the recipient or subrecipient completes the grant and there are remaining funds, the recipient cannot keep those funds as profit.

Entities that receive federal grant awards may not build up the entity's fund balance as a result of the grant.

Consistent with previously noted OMB guidance, an entity may be a subrecipient and a contractor. Many Section 5311 or Section 5310 recipients and subrecipients provide service to state or local human service agencies or other organizations under the terms of a purchase of service agreement. In these instances, the transit provider is a contractor. Nothing prohibits the transit provider in this scenario from making a profit on the provision of such services.

Audit and Auditee Responsibilities

The Super Circular delineates the roles and responsibilities of an entity that meets the \$750,000 threshold that trigger the single audit requirement details in Subpart F (2 CFR § 200.500).

OMB guidance specifically tasks the subrecipient with the following key compliance items:

- Auditors must be selected using a competitive process consistent with the entity's third-party contracting policies (e.g., a Request for Proposal [RFP] process), including:

- At a minimum, specific selection factors must be used in the selection of the audit firm and include, at a minimum:
 - Relevant experience
 - Availability of staff
 - Price
- Clear delineation of the objectives and scope of the audit
- Receipt of a copy of the audit organization's peer review report
- Preparation of financial statements
- Preparation of the Schedule of Expenditures of Federal Awards (SEFA)
- Follow-up and development of correction action on all audit findings
- Preparation of schedules of previous year audit findings
- Preparation of corrective action plans
- Adherence to schedules for submission of audit reports

These elements are addressed more fully in the chapter dedicated to audit.

Chapter Summary

Proper administration of FTA grants requires the recipient or subrecipient to be knowledgeable of cost principles, administrative requirements, and audit principles articulated by OMB through the Super Circular, providing essential guidance to any recipient of federal grant funds.

New requirements include mandatory disclosures, increased emphasis on internal controls, new obligations on federal awarding agencies to accept indirect cost rates, a new type of simplified indirect cost rate, and an increase in the threshold that stipulate preparation of a single audit in accordance with governmental accounting standards.

This guidance also clarifies oversight responsibilities when an entity passes grant funds to a subrecipient. Further, OMB has specified distinctions for a subrecipient versus a contractor.

Finally, the guidance provides more definition on the roles and responsibilities of the awarding agency, the auditee, and the auditor in the single audit process.

CHAPTER APPENDICES

Appendix 2A: Pass-Through Entities – Contract Requirements with Lower-Tier Subrecipients

- Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes required information that informs the subrecipient that the award is federally funded. Required federal award identification data include:
 - Subrecipient name
 - Subrecipient name (which must match registered name in the Data Universal Numbering System [DUNS])
 - Federal Award Identification Number (FAIN)
 - Federal award date
 - Subaward period of performance start and end date
 - Amount of federal funds obligated by this action
 - Total Amount of federal funds obligated to the subrecipient
 - Total amount of the federal award
 - Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA)
 - Name of federal awarding agency, pass-through entity, and contact information for awarding official
 - Catalog of Federal Domestic Assistance (CFDA) number and name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
 - Indirect cost rate for the federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)
- Delineate all requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award
- Define any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency including identification of any required financial and performance reports
- Establish whether the subrecipient has 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
- A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this section
- Appropriate terms and conditions concerning close of the subaward

Source: 2 CFR § 200.331(a)(1) – (4).

Appendix 2B: Pass-Through Entities – On-Going Monitoring of Lower-Tier Subrecipients

- 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
- Review periodic financial and programmatic reports
- Follow-up and ensure that the lower-tier 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
- Issue management decisions for audit findings pertaining to the federal award provided to the lower-tier subrecipient from the pass-through entity

Source: 2 CFR § 200.331(c).

Appendix 2C: Pass-Through Entities – Periodic (Optional) Monitoring of Lower-Tier Subrecipients

- Provide lower-tier subrecipients with training and technical assistance on program-related matters
- Perform on-site reviews of the lower-tier recipient's program operations
- Arrange for agreed-upon procedures

Source: 2 CFR § 200.331(d)(1) – (3).

CHAPTER 2 QUIZ

1. The OMB has no role in FTA grant administration.

- True False

2. The Super Circular replaces the Common Rule, noted frequently in various FTA Circulars.

- True False

3. The Super Circular is effective July 1, 2016.

- True False

4. The Super Circular raises the threshold for when an NFE must prepare a single audit. The new threshold is:

- \$300,000
 \$500,000
 \$750,000
 \$1,000,000

5. All recipients of federal grant awards must prepare an indirect cost plan.

- True False

6. A lower-tier subrecipient under one grant program may be a contractor under another award.

- True False

7. It is permissible for an NFE to ask its audit firm to prepare its Schedule of Expenditures of Federal Awards (SEFA).

- True False

8. An NFE may make money or profit as long as it achieves all program objectives within the approved budget.

- True False

9. Once an audit finding is rendered in an audit report, the auditee has no further obligations with respect to the audit report.

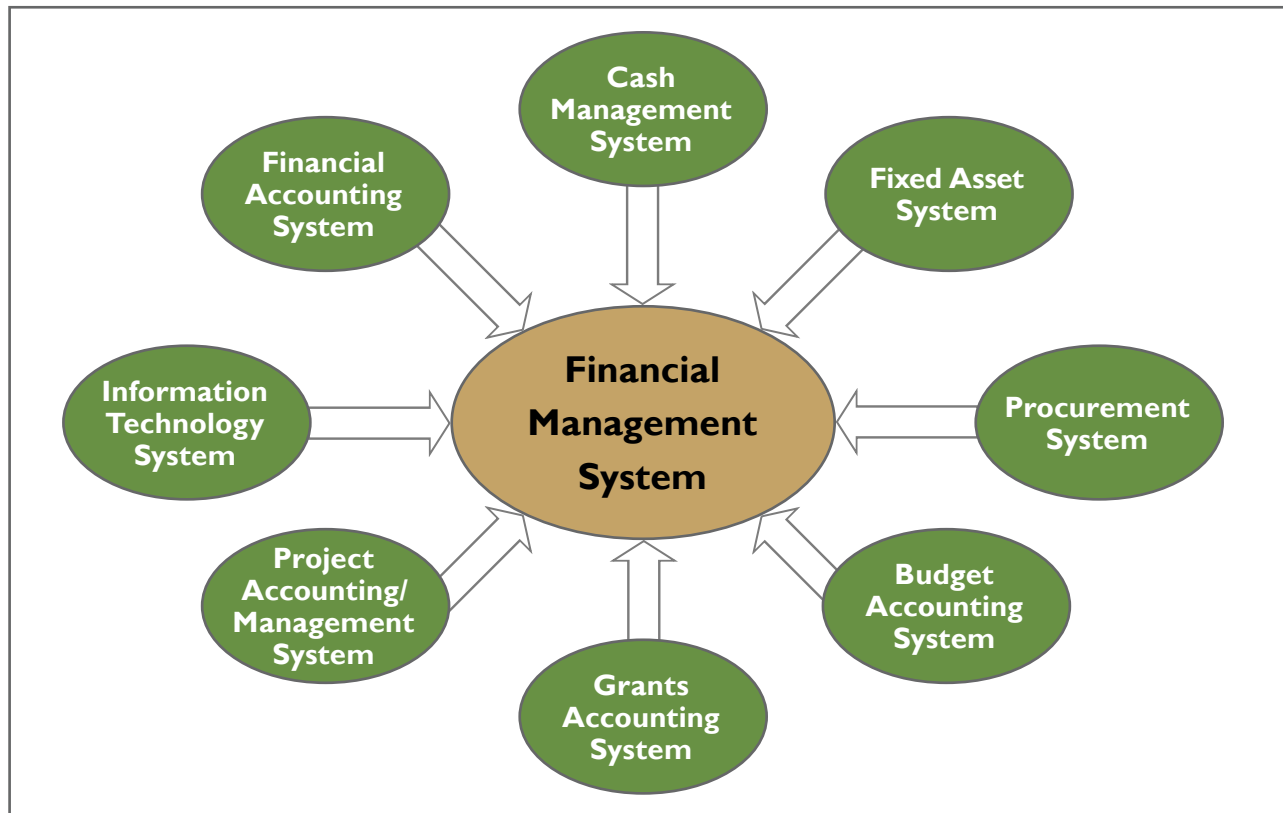
- True False

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 3: FOUNDATION ELEMENTS: ACCOUNTING/CHART OF ACCOUNTS



Source: Financial Management Oversight, PowerPoint presentation, FTA (2010)

Goals of this Chapter

Transit agencies must ensure that individuals tasked with managing federal grant awards are properly trained to meet the obligations that are imposed on the organization by FTA. These obligations include internal controls, financial management systems, accounting software, and a chart of accounts. This chapter is designed to ensure that transit agencies understand the importance of meeting these obligations using a well-structured chart of accounts as a fundamental element to sound financial management systems.

This chapter will review:

- Basic financial system for recipients of federal grant funds
- Identification of internal controls
- Chart of accounts structure
- Uniform System of Accounts (USOA)
- The role of the chart of accounts in serving transit management needs

Federal Funding Management Requirements

There have been longstanding, minimum requirements for the financial management systems that must be maintained by any recipient of FTA funds. These standards were previously articulated in the Common Rule and were found at 49 CFR § 18 (for state governments, local governments, and tribal governments) and 49 CFR § 19 (for private nonprofit organizations).

The Super Circular has replaced the Common Rule with standards articulated at 2 CFR § 200.302. Exceptions to these rules are permitted; U.S. DOT exceptions are codified at 2 CFR § 1201.

Basic Requirements

Any recipient of federal grant funds must:

1. Identify, in its accounting records, all federal awards received and expended and the federal programs under which they were received.
2. Maintain accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the financial reporting and monitoring requirements stipulated in 2 CFR §§ 200.327 and 200.328.
3. Keep records that identify the source and application of funds for federally funded activities.
4. Maintain effective control over, and accountability for all funds, property, and other assets. The NFE must adequately safeguard all assets and assure that they are used solely for authorized purposes.
5. Keep records that contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, and expenditures.
6. Develop comparisons of expenditures with budget amounts for each federal award.

What Do These Requirements Mean?

I. Identification of Federal Program

This is a relatively simple requirement, which a subrecipient of FTA funds can meet by documenting the following information for each award or subaward:

- Common program name/title
- CFDA title (e.g., Formula Grants for Rural Areas)
- CFDA number (a list of common CFDA numbers for FTA programs is found in Attachment A to this chapter)
- Federal award identification number
- Year in which the award was made
- Name of the federal agency
- Name of the pass-through entity, if any

Many automated accounting software systems that specialize in government grant accounting will enable the subrecipient to record this information within the software system itself, negating the need to maintain a separate written file of this information.

For example, if a transit agency is a recipient of Section 5311 funds and located in Oregon, the documentation to be maintained would be comparable to that in Exhibit 3.1.

Exhibit 3.1. Illustration of Data to Properly Identify a Federal Grant Award (Oregon Section 5311 Example)

Identification Requirement	Data
Common Name or Title	Section 5311
CFDA Title	Formula Grants for Rural Areas
CFDA Number	20.509
Federal Award Identification Number	OR-18-032
Year in Which the Award Was Made	2016
Name of the Federal Agency	Federal Transit Administration
Name of the Pass-Through Entity, if Any	Oregon Department of Transportation

2. Accurate and Complete Financial Results

Financial reports serve as tools for use by transit managers to control the organization and to monitor achievement of system objectives. Financial reports also provide information to external parties—primarily federal awarding agencies—that indicate compliance with the terms and conditions of the grant award.

These dual needs place demands on the transit agency’s accounting software; the transit agency must have the requisite software and policies to address these needs. One recipient agency created this quick quiz to challenge potential subrecipients if their accounting systems can meet this requirement.

What is Accrual Accounting?

Accrual accounting is the practice of recording revenues and expenses when they are incurred rather than on a cash-in, cash-out basis. Accrual accounting is required by FTA for NTD reporting. In the accrual accounting method:

- Record revenues when they earn them, regardless of whether the revenue is received in the same fiscal year.
- Record expenditures as soon as they are owed, regardless of if funds are paid in the same fiscal year.

Exhibit 3.2. Checklist for Accounting System Capacity

- Does the accounting system identify the receipt and expenditure of program funds separately for each grant?
- Does the accounting system provide for the recording of expenditures for each grant/contract by budget cost categories shown in the approved budget?
- Does your accounting system have the capability to document the recording of cost sharing or match for each grant? Can you determine if documentation is available to support recorded match or cost share?
- Are time distribution records maintained for each employee that specifically identify effort charged to a particular grant or cost objective?
- Does the accounting/financial system include budgetary controls to preclude incurring obligations or costs in excess of total funds available or by budget cost category (personnel, travel, etc.)?
- Is the organization familiar with the existing federal regulation and guidelines containing the Cost Principles and procedures for the determination and allowance of costs in connection with federal grants?

Source: Financial Management and System of Internal Controls Questionnaire, U.S. Department of Justice.

3. Records and Documentation

The subrecipient transit agency must maintain data and records that identify the source and application of funds provided for all federally assisted grant activities. These records must be able to document information on award authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and revenues.

These records are maintained in the entity's accounting software while documentation is maintained in written files. During an audit, the records that are examined and tested by the selected auditor. Failure to adhere to this requirement could lead to audit exceptions, findings, etc.

4. Effective Control Over Funds, Property, and Assets

Internal Controls – Defined

Establishing good **internal controls** is an organization-wide effort, involving many parties, including all positions mentioned in Chapter 1.

There are many tools available to assist an organization in developing internal controls. FTA Circular 5010.1E, Chapter V, makes reference to an "Internal Control Self-Assessment Form." At 47 pages, this form may be intimidating to smaller organizations. However, the Super Circular applies the same overall requirements to transit agencies of all sizes, from a small transit agency operating three buses to a large transit agency operating over a thousand buses.

What are Internal Controls?

Internal controls are processes, implemented by an NFE, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

Regardless of the size of the organization, a transit agency must remember that maintaining a good system of internal controls encompasses both technical competence and ethical commitment; such commitment must come from the highest levels of the organization.¹ Management must set the organization's tone and provide discipline and structure to the internal controls for financial management. One accounting firm refers to this as "Tone at the Top" and describes seven key factors contributing to the control environment:

- Integrity and ethical values
- Board of directors oversight
- Management's philosophy and operating style
- Organizational structure
- Financial reporting competencies
- Authority and responsibility
- Human resource policies and practices²

These seven key factors were derived from the so-called "Green Book," also known as *Standards for Internal Control in the Federal Government*.³ Although written for Federal agencies, the Green Book provides an in-depth discussion of internal controls for those agencies that seek a comprehensive approach to this topic.

One important element of developing internal controls is the fact that transit management should develop and test such processes and not wait for the work of the transit agency's independent auditor to assess and render findings regarding the agency's weaknesses in this area.

The Super Circular elaborates on the third element of internal control, compliance with applicable laws and regulations. The Super Circular requires that the NFE provide reasonable assurance in achieving the following objectives:

- Transactions are properly recorded and accounted for, to:
 - Permit the preparation of reliable financial statements and federal reports

¹ 2 CFR § 200.61

² *Establishing Internal Controls Over Financial Reporting and Federal Grant Compliance for Today and the Future*, J.H. Cohn, LLP (2012)

³ <https://www.gao.gov/greenbook/overview>

- Maintain accountability over assets
- Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award
- Transactions are executed in compliance with:
 - Federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program
 - Any other federal statutes and regulations that are identified in the Compliance Supplement⁴
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition

Recommended Policies and Procedures Topics for a Good System of Internal Controls

Every organization's needs in this area are different depending on the type and complexity of the agency and its scope of services. Using the "Internal Control Self-Assessment Form," the following topics would represent a sound and comprehensive set of internal controls for a transit agency:

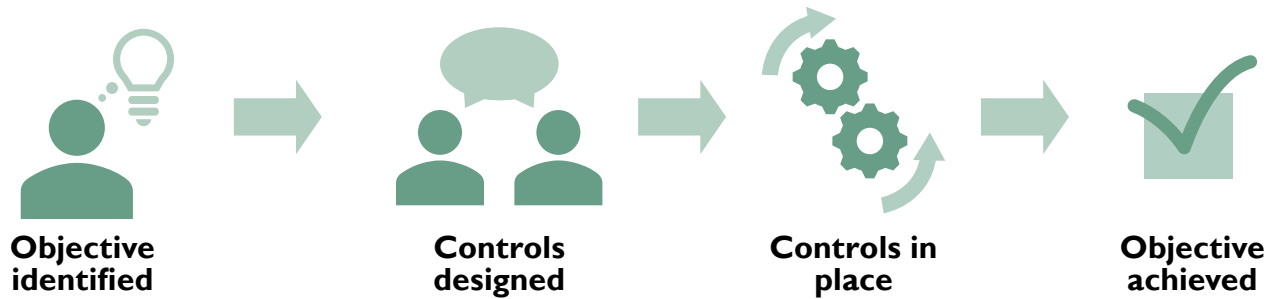
- Organizational ethics/integrity
- Roles/responsibilities of the governing board
- Management of risk
- Budget development/management
- Information/communication
- Cash management
 - Cash receipts
 - Cashiering
 - Farebox tabulation
 - Storage
 - Deposits
- Cash disbursements

- Accounts management/reconciliation
- Investments
- Fixed assets management
 - Inventory records
 - Depreciation schedules
 - Disposition method
 - Safeguards
- Procurement
 - Authorized levels, authority, approvals
 - Credit card use
 - Conflict of interests
 - Receiving/acceptance
- Accounts payable
- Accounts receivable
- Payroll
- Cost classification/indirect costs
- Grants management
- Audit
- Information technology
 - Access controls
 - Back-up and security
 - Business continuity

On-Going Management Oversight

Adoption of a complete set of internal policies and procedures may represent most, but not all, of the procedures that an agency should employ in the management of its finances. Agencies must continue to exercise due diligence to ensure that the adopted procedures are effective (see Exhibit 3.3).

⁴ <https://www.whitehouse.gov/wp-content/uploads/2018/05/2018-Compliance-Supplement.pdf>



Source: General Accountability Office, GAO-14-704G.

5. Records Pertaining to Federal Awards, Authorizations, Obligations, Unobligated Balances, Assets, and Expenditures

The Super Circular requires that an NFE’s accounting system is capable of tracking information about a specific grant award, the total amount awarded, obligations, unexpended balances, and pending expenditures. Similarly, the transit agency must be able to track and maintain data on assets acquired with Federal funds over the capitalization level (currently \$5,000).

6. Comparisons of Expenditures with Budget Amounts for Each Federal Award

Budget control involves comparative analysis of budgeted amounts with actual performance for each grant or subaward. Such comparisons should take place on a periodic basis and represents a fundamental financial management function. Whether large or small, a best practice is for a transit agency to compare budget to actual monthly. A transit agency’s accounting software must be capable of generating such reports for the program, and by each grant received by the agency. A simple illustration of such a comparison is found in Exhibit 3.4.

Finding the correct software for the organization is a balancing act between needs, ease of use, functionality, and cost. In today’s computing environment, the situation is even more complex, as the buyer must evaluate whether to implement the software deployment locally (on-premises), use a hosted solution, or a cloud-based solution (typically referred to as software as a service [SaaS]).

As National RTAP does not endorse specific products,

this manual will not recommend an accounting package. National RTAP recognizes that many smaller transit agencies, particularly in the nonprofit sector, use widely available, off-the-shelf software products for accounting. These software products are easy to learn and relatively inexpensive.

However, in addition to some of the factors in the accounting software checklist presented earlier in this chapter, management should consider:

- Is the agency over-relying on spreadsheets to support financial processes and reporting? Use of auxiliary spreadsheets can lead to data entry errors, incorrect or outdated data, process inefficiencies, and a lack of control and compliance.
- Does the agency engage in excessive manual entry of data? In today’s rural transit agencies, any number of multiple business systems/software products may be in use. The ability to integrate these other applications with the accounting software will improve productivity and reduce data entry errors.
- Is access to reports and real-time financial data limited to financial staff? Most of the current accounting software products offer dashboard capabilities allowing department managers and others access to real-time finance reports, often critical to decision-making.
- Does the company have to develop manual work-arounds to be compliant with Generally Accepted Accounting Principles (GAAP)? The Super Circular requires that to be allowable, all costs charged to a federal grant award must conform to GAAP (2 CFR § 200.403(e)).

Income Statement Variance									
ABC Nonprofit, Inc.									
Transportation Department									
For the Month Ended April 30, 2018									
Class Object	Description	This Period - April 2018				Year-to-Date			
		Budget	Actual	Variance	Percent	Budget	Actual	Variance	Percent
501 LABOR									
501.01	Operator's Salaries & Wages	\$ 82,106	\$ 83,227	\$ (1,121)	-1.4%	\$ 985,275	\$ 832,270	\$ 153,005	15.5%
501.02	Other (Operating) Salaries & Wages	\$ 5,852	\$ 5,246	\$ 606	10.4%	\$ 70,225	\$ 52,460	\$ 17,765	25.3%
501.03	Dispatchers Salaries & Wages	\$ 10,467	\$ 10,223	\$ 244	2.3%	\$ 125,600	\$ 102,230	\$ 23,370	18.6%
501.04	Other (Administrative) Salaries & Wages	\$ 19,207	\$ 19,200	\$ 7	0.0%	\$ 230,480	\$ 192,000	\$ 38,480	16.7%
501.99	Other Salaries & Wages	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
502 FRINGE BENEFITS									
502.01	FICA	\$ 7,293	\$ 7,310	\$ (16)	-0.2%	\$ 87,518	\$ 72,902	\$ 14,615	16.7%
502.02	Pensions & Long Term Disability	\$ 2,353	\$ 2,265	\$ 88	3.7%	\$ 28,232	\$ 21,117	\$ 7,114	25.2%
502.03	Health Insurance	\$ 10,587	\$ 10,485	\$ 102	1.0%	\$ 127,042	\$ 105,826	\$ 21,216	16.7%
502.04	Dental Plans	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
502.05	Life Insurance	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
503 SERVICES									
503.01	Management Services Fees	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -	0.0%
503.02	Advertising Services	\$ 167	\$ -	\$ 167	100.0%	\$ 2,000	\$ 1,666	\$ 334	16.7%
503.03	Professional & Technical Services	\$ 1,333	\$ 1,125	\$ 208	15.6%	\$ 16,000	\$ 13,328	\$ 2,672	16.7%
504 MATERIALS AND SUPPLIES									
504.01	Fuel & Lubricants	\$ 16,944	\$ 14,985	\$ 1,959	11.6%	\$ 203,333	\$ 167,526	\$ 35,807	17.6%
504.02	Tires & Tubes	\$ 2,000	\$ 1,632	\$ 368	18.4%	\$ 24,000	\$ 18,950	\$ 5,050	21.0%
504.03	Inventory Supplies	\$ 1,167	\$ 865	\$ 302	25.9%	\$ 14,000	\$ 11,854	\$ 2,146	15.3%
504.99	Other Materials & Supplies	\$ 417	\$ 987	\$ (570)	-136.9%	\$ 5,000	\$ 4,258	\$ 742	14.8%
505 UTILITIES									
505.02	Utilities Other than Propulsion Power								
505.02.01	Telephone	\$ 5,500	\$ 5,269	\$ 231	4.2%	\$ 66,000	\$ 55,125	\$ 10,875	16.5%
505.02.02	Electricity	\$ 2,000	\$ 1,920	\$ 80	4.0%	\$ 24,000	\$ 20,136	\$ 3,864	16.1%
505.99	Other Utilities	\$ 333	\$ 325	\$ 8	2.5%	\$ 4,000	\$ 3,147	\$ 853	21.3%

What is the Chart of Accounts?

A chart of accounts is a listing of the names (and account numbers) of the accounts that the organization has identified to track assets, liabilities, revenues, and expenses. The accounting entity records these elements in the general ledger.

The chart of accounts is the foundation of any successful financial management system. A well-structured chart of accounts will assist the transit agency in several ways, including:

- Generating reports to bill federal awarding agencies.
- Ensuring that non-allowable costs are not billed to federal grant award programs.
- Providing management with real-time data necessary for the efficient operation of the transit program.

- Assisting in the classification and segregation of transit administration, operations, and capital costs.
- Ensuring timely availability of financial data to respond to federal awarding agency requests for periodic progress reports.
- Providing information that will aid in the preparation of indirect cost rate proposals.
- Assisting in year-end preparation of the SEFA and other required schedules.

The demands on the chart of accounts are many; different individuals bring a range of goals for the chart of accounts:

- The CEO requires timely and accurate summary data to present to the governing board.

- The CFO must ensure that the data complies with GAAP while meeting all federal and state obligations imposed on the organization.
- Program/grant managers require detailed information on which to base day-to-day management decisions while ensuring that data necessary to respond to federal awarding agency reporting requirements are readily available.

Goals in Chart of Accounts Development/Management

Transit service providers are often part of a larger, multipurpose organization. When transit is provided by municipal, county, or tribal governments, the transit department is but one of many operating departments of the organization. The chart of accounts has been established to meet general public governmental needs, not those needs specific to transit.

Similarly, most nonprofit providers of rural and specialized transportation provide multiple program services, with those other services being the primary reason why the organization was initially created. In these circumstances, the chart of accounts was originally configured to meet the needs of a human service organization; delivery of transit may be a secondary consideration of the agency.

In either scenario, the chart of accounts may not be structured to maximize utilization for the transit program. However, program managers must remember the chart of accounts is not set in stone; changes should be made to the chart when the organization takes on new or expanded programs and services.

CFOs are generally tasked with the development and maintenance of the organization's chart of accounts. In some cases, the chart of accounts may be dictated to the organization by a state authority; for example, in North Carolina, the Local Government Commission requires that all local governments use a standardized chart of accounts. Even with standardized account definitions, there is usually sufficient flexibility to allow the CFO to add/delete accounts as necessary.

CFOs may be reluctant to modify the organization's chart of accounts. There are many sound reasons for this reluctance, including:

- More accounts create an increasingly larger chart of accounts, and dictate more management and oversight of general ledger entries.
- New accounts require training at several levels within the organization, thus adding to accounting overhead.
- New accounts may hinder or distort the organization's ability to generate meaningful comparisons with prior years' data.

However, being too conservative with respect to modifying the chart of accounts can lead to other issues, including:

- It is unclear who owns the chart of accounts or who has the responsibility for maintaining the chart of accounts within the organization.
- The chart of accounts has limited scalability to support changing needs and grant requirements.
- Organizational procedures for managing the chart of accounts do not exist or are poorly defined, leading to confusion among department managers.
- There is limited use of subledger systems for low-level analysis.
- There is no link between key performance indicators and the chart of accounts.
- There is a lack of training on the chart of accounts or the accounting system as a whole and poor management of changes.⁵

Strategies for Ensuring the Chart of Accounts Works for the Transit Program

The transit manager is the responsible party for communicating financial needs to the organization as a whole, including the CEO, if the transit agency is part of a larger organization. When federal awarding or pass-through agencies approve a grant award or impose specific reporting requirements on the recipient/subrecipient of a transit grant award, these requirements should be jointly discussed between the transit program and the CFO. Communication is a key strategy; the transit manager

⁵ *Unlock Value Through Your Chart of Accounts*, Deloitte, Ltd. (2012).

should be sufficiently trained on the chart structure and processes for change, and the finance staff should be cognizant of grant-imposed reporting requirements and ensure the system can be responsive to these needs.

Too often, transit managers assume that they must use finance data as presently configured and take it upon themselves to accommodate the needs of the federal awarding agency. This results in the transit department maintaining ancillary data, typically in spreadsheets, in order to respond to reporting requirements. **Such practices are not recommended and should be avoided.**

There are many pitfalls in this practice, including submission of financial reports to a federal awarding agency that:

- Contain incomplete or missing information.

- Fail to properly incorporate overhead or other central service allocations.
- Do not reconcile to the accounting records of the organization.

These factors will contribute to inefficient management practices and potential problems, such as delays in processing agency requests for grant payments and the review and redo of periodic progress reports.

Exhibit 3.5 documents best practices and strategies to ensure the chart of accounts works for the transit program. Good internal communication is key to the chart of accounts serving as an aid, not a hindrance, to good financial management.

Exhibit 3.5. Best Practices/Strategies for Ensuring the Chart of Accounts Works for Your Transit Program

Transit Role/Responsibility	Finance Role/Responsibility
Provide a copy of the contract and grant agreement/final approved grant budget to finance staff.	Assign appropriate codes and incorporate the grant budget in the official financial records of the organization. Compare existing accounts and develop (if necessary) the cross-walk so that all individuals are familiar with cost classification and that the grant budget is tied to specific line-items in the organization's chart of accounts.
Provide a copy of the applicable FTA program circular to finance staff.	Ensure that accounting staff is aware of cost allowability principles and any limitations imposed by the federal awarding agency. If the state DOT permits project administration as a distinct category of allowable expense, ensure finance staff has established appropriate account coding to segregate administrative expenses from operating expenses.
Provide a copy of reporting forms and other requirements (e.g., NTD or other state DOT reporting format) to finance staff. Discuss financial inputs so that all parties have a thorough understanding (e.g., separate reporting of capital from operating expenses).	Develop reports that provide transit management with the correct inputs of financial data that reconcile with the financial records of the organization.
Review federal awarding or pass-through agency requirements on budget revisions/amendments.	If different, reconcile organization policy with grant policy so that the individual responsible for grant management is familiar with revision/amendment requirements.
Develop and assess key performance indicators (KPI) annually. Isolate what financial data are necessary for computation.	Ensure that accurate financial data are readily available for KPI computations (e.g., if the system identifies farebox recovery ratio as a KPI, finance must ensure that the revenue report includes only those items that must be counted as fare revenue).

In the event that a transit agency is limited by the financial software and is required to manually separate entries from the general ledger using spreadsheets, transit staff must take care to ensure the resulting output can be reconciled to the organization’s financial data. A best practice would be for both the transit and finance departments to review these worksheets prior to reporting to the federal awarding agency.

Uniform System of Accounts (USOA)

In 1974, Congress determined that urban recipients of FTA funds would be required to submit uniform, annual reports. Known at the time as “Section 15,” this system has continually evolved since its inception. Now known as the National Transit Database (NTD), the system uses uniform categories to collect public transportation financial information and defines these elements in the USOA.

For many years, NTD, and the use of the USOA, was confined only to urbanized areas. Many in the rural and specialized transit community recognized the potential value of a standardized chart of accounts but felt the system was too complex and failed to address the unique circumstances in rural communities. A six-state group known as the Transportation Accounting Consortium, originally established by the White House in 1979 to resolve obstacles to the coordination of public and human service agency transportation, eventually issued their own chart of accounts more suited to rural needs. This effort, however, relied heavily on existing NTD conventions.

A subsequent critical analysis of the rural chart of accounts conducted by National RTAP in 2006 revealed only limited differences between the rural version and the NTD. With continued evolution and refinement of the USOA, there is no longer a need for a separate chart of accounts for rural operators. The 2018 version of the USOA should meet the needs of the most demanding rural and specialized transportation agencies.

Recipients of Section 5311 funding were only required to begin reporting under the NTD with the passage of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in August 2005. However, rural reporters only need to report a limited amount of revenue data and summary expense data. As a result, many rural transit agencies are unfamiliar with the USOA chart of accounts. Moreover, transit agencies that are part of a larger organization will use the chart of accounts employed by the parent organization.

Nevertheless, the USOA can be useful in helping transit managers and CFOs determine how to appropriately structure the organization’s chart of accounts. The USOA has undergone continuous update, revision, and expansion over the years to reflect the needs of transit agencies, FTA, and Congress. A recommended best practice is that all rural transit agencies review the account structure of the USOA (particularly revenue and expense class definitions) and determine whether the various accounts would be appropriate for inclusion in their chart of accounts employed by the parent organization.

Changes to the USOA

Major structural changes in the USOA were introduced effective with the FY 2018 NTD reporting year. For those readers familiar with the USOA, be advised that the longstanding account numbers have been converted in the 2018 USOA to 4-digit numbers; the previous 3-digit, decimal point, 2-digit sequence has been replaced (Exhibit 3.6).

Exhibit 3.6. Illustrative Account Number Changes in the 2018 USOA

Object of Expenditure	Old USOA Number	New USOA Number
Operators’ Salaries and Wages	501.01	5011
Fuel and Lubricants	504.01	5031
Tires and Tubes	504.02	5032
Purchased Transportation – In Report	508.01	5101

Additionally, there has been significant reduction in the number of specific objects of expenditure in the new format, providing more freedom to organizations using this chart of accounts. FTA notes the following major changes to definitions of expenses:

- A new category for “ADA Expenses” (e.g., complementary paratransit expenses) has been added (but is not mutually exclusive of other accounts).
- A new “Voluntary Non-Exchange Transactions” category has been added.

personnel from those personnel working on transit administration activity, which is necessary if the transit agency is in a state that permits separate billing of these expenses at the higher rate of federal participation (See Chapter 5).

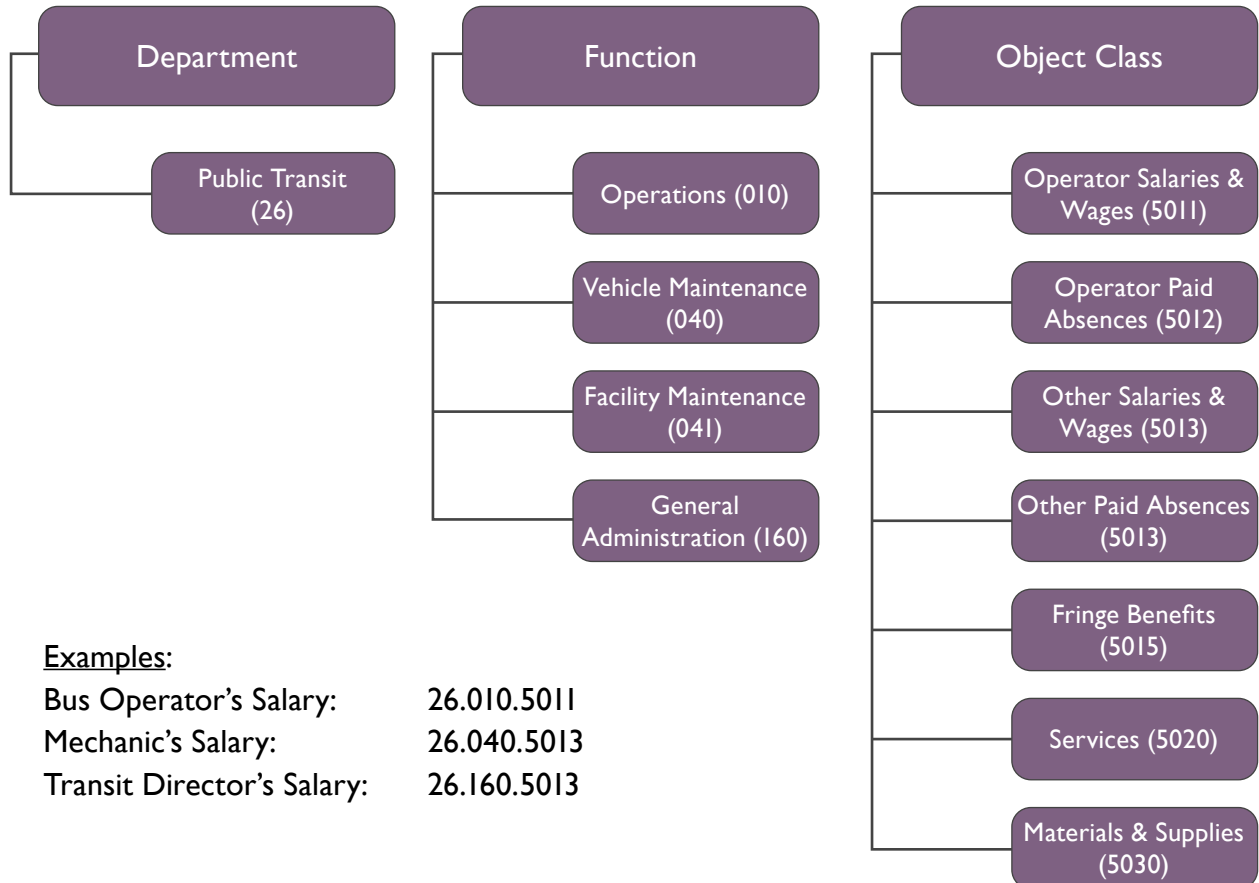
Benefits of using function codes include:

- Segregating operating salaries from administrative salaries.
- Segregating vehicle maintenance expenses from other maintenance costs (facility expenses) assisting in the cost classification function when the transit agency uses fully allocated cost analyses, which requires an entity to break expenses into fixed and variable categories.
- Assessing workforce utilization and human resource requirements.

- Assessing the impact of service expansion and service reductions.

The downside of using function codes is that, in most applications, adding the function lengthens the coding string associated with each transaction. Exhibit 3.8 provides a generic look at account structure using function codes.

Exhibit 3.8. Illustration of Account Structure Using Function Codes



Chapter Summary

Acceptance of a federal grant award imposes obligations on the organization; in addition to ensuring that properly trained and qualified individuals are tasked with management of the grant, the agency must have the necessary financial management systems in place to perform required grants management functions. The accounting software and chart of accounts are crucial to meeting these obligations.

One of the critical functions that must be incorporated into grants management procedures is a system of internal controls. A transit agency must identify, establish, and monitor such controls.

A chart of accounts is a listing of the names (and account numbers) of the accounts that the organization has identified to track assets, liabilities, revenues, and expenses. The chart of accounts is the foundation of any successful financial management system. A well-structured chart of accounts will assist the transit agency with managing and evaluating the performance of the services provided.

Establishing a sound, working chart of accounts can pose challenges, particularly for those transit agencies that are part of local government or a multipurpose nonprofit organization. The chart of accounts has been established to meet general public governmental needs, not those needs specific to transit; good internal communications can limit difficulties that are sometimes found in multipurpose organizations.

FTA has developed a standardized chart of accounts for transit agencies, known as the USOA. FTA does not require the use of the USOA for accounting but does require most agencies to report transit income and expenses using this account structure.

Use of function codes can further increase the functionality of a chart of accounts; even for the smallest of transit agencies, four basic functions should be incorporated into account classification: operations, vehicle maintenance, facility maintenance, and general administration.

Notes

CHAPTER APPENDICES

Appendix 3A: CFDA Numbers for Key FTA Programs

CFDA Number	Statutory Authorization	FTA Program Name
20.525	49 U.S.C. § 5337	State of Good Repair Grants Program
20.505	49 U.S.C. § 5305	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research
20.507	49 U.S.C § 5307	Urbanized Area Formula Program
20.500	49 U.S.C § 5309	Capital Investment Grants (Bus, Fixed Guideway, New Starts)
20.513	49 U.S.C § 5310	Enhanced Mobility of Seniors and Individuals with Disabilities
20.509	49 U.S.C. § 5311	Formula Grants for Rural Areas
20.514	49 U.S.C. § 5312, 5313, 5314, and 5322	Research, Technical Assistance, and Training Programs
20.526	49 U.S.C § 5339	Bus and Bus Facilities Infrastructure Investment Program

Source: Catalog of Federal Domestic Assistance, 2017 Version and CFR § 200.330(a)-(b).

CHAPTER 3 QUIZ

1. Any subrecipient must maintain accounting records that identify all federal awards received and expended and the federal programs under which they were received.

- True False

2. All federal grant programs have an identifying number known as the CFDA number.

- True False

3. The accounting system for any federal grantee must be able to document information on award authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and revenues.

- True False

4. Internal controls are the sole responsibility of the independent audit firm.

- True False

5. Integrity and ethics are a key element of any organization's system of internal controls.

- True False

6. Good internal controls should be supported by written policies and procedures of the organization.

- True False

7. The chart of accounts has no bearing on an organization's compliance with federal awards.

- True False

8. FTA mandates that all entities receiving FTA financial assistance use the USOA as its chart of accounts.

- True False

9. Once developed, an organization cannot change its chart of accounts without permission of its independent auditor.

- True False

10. FTA requires that full reporters under the NTD report transit expenses using the USOA chart of accounts.

- True False

11. FTA has changed the USOA chart of accounts and these changes will be effective in FY 2020.

True

False

12. USOA function codes are not mandatory for rural NTD reporters but may be helpful if used in the organization's accounting structure.

True

False

Notes

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Uniform System of Accounts (USOA). Available at: <https://www.transit.dot.gov/node/56681>.
- GAO Standards for Internal Controls in the Federal Government. Available at the GAO's website: <https://www.gao.gov/assets/670/665712.pdf>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 4: UNDERSTANDING DIRECT AND INDIRECT COSTS

Under the Super Circular, indirect costs are now termed “Facilities and Administration” (F&A).

“Facilities” is defined as depreciation on buildings, equipment, and capital improvements, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

“Administration” is defined as general administration and general expenses such as the director’s office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of “Facilities.”

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system.

A cost may be direct with respect to some specific service or function, but indirect with respect to the federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of federal awards. Guidelines for determining direct and indirect (F&A) costs charged to federal awards are provided in this subpart.

- 2 CFR §200.412

Goals of this Chapter

This chapter provides an overview of the concepts of direct and indirect costs, including transit specific examples, and reviews the procedures an entity must follow to claim indirect costs under a federal grant award.

This chapter will:

- Describe the concepts of direct and indirect costs for federal grant awards
- Provide illustrations of typical transit costs that are direct and indirect
- Review the process for claiming indirect costs
- Explain the options for preparing an indirect cost rate proposal (ICRP)
- Describe how to determine the cognizant agency for indirect costs

Understanding Direct Costs

One of the fundamental principles of cost allowability is that the cost must be allocable to a specific federal award. Transit agencies must be capable of determining both direct and indirect costs for services supported by federal funding. The Office of Management and Budget (OMB) states there are no universal rules for classifying costs as direct or indirect under every governmental or nonprofit accounting system.¹ The essential difference is the degree of ease with which a cost can be readily assigned to a particular cost objective with a high degree of accuracy. Such readily assigned costs are direct costs.

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award. A direct cost can readily be assigned to specific activities with relative ease and a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs (now referred to as Facilities and Administration [F&A] costs under the Super Circular).

Direct costs are those expenses incurred by the recipient or subrecipient that are directly related to and strictly benefit only the public transportation program. Examples of direct costs defined in the Super Circular are:

- Compensation of employees for the time devoted and identified specifically to the performance of the federal award
- Cost of materials acquired, consumed, or expended specifically for providing award related services
- Equipment and other approved capital expenditures
- Travel expenses incurred specifically to carry out the federal award

Most transit costs are direct costs. Some examples of typical direct costs include:

- Operator's salaries and wages
- Dispatcher's salaries and wages
- Contract vehicle maintenance
- Fuel and lubricants consumed

¹ 2 CRF § 200.412

- Tires and tubes consumed
- Purchased transportation

Direct costs are allowable under federal awards to the extent the costs conform to all seven principles of cost allowability discussed in Chapter 5.

Understanding Indirect Costs

Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective or program and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved (e.g., the time consumed to segregate and assign the cost to a particular objective is too high in relation to the cost amount).

Some entities that provide public transit, such as units of local government or multipurpose nonprofit organizations, perform many departmental or program functions and would likely incur indirect expenses. In these cases, the expenditures benefit not only the public transit program, but other programs or departments as well. Such costs would typically be considered indirect costs.

Indirect costs are typically charged to federal awards using an indirect cost rate. A separate indirect cost rate is usually necessary for each department or agency of the governmental unit claiming indirect costs under federal awards.

Typical examples of indirect costs cited by OMB include:

- Central service costs of support departments such as human resources, payroll, and information technology that support the various operating units of the entity
- General administration of the organization
- Cost of operating and maintaining facilities that are shared by multiple units/programs/departments of the organization
- Salaries and expenses of executive officers who do not track time expended by program

In a public transit program, typical indirect costs may include:

- *Administrative Salaries and Wages.* Salaries of administrative staff performing management, accounting, or personnel services for the transit system, but whose time is not accounted for by functional activity. Because detailed time records indicating an exact, after-the-fact accounting of time expended under the organization's various federal awards may not be available, the costs do not qualify as direct expenses and must be categorized as indirect costs.
- *Other Administrative Facilities.* This expense item would include leased buildings where transit functions were performed in buildings not expressly dedicated to transit management, operations, or maintenance. Direct allocation of transit related expenses would be difficult or impossible.
- *Telephone.* Utility charges for basic phone service when there is no logical method to directly allocate costs to a program or grant activity would also be a typical indirect cost.

Will All Transit Agencies Incur Indirect Costs?

Organizations whose sole purpose is the provision of public transit typically will not incur indirect costs. All expenditures are to carry out the delivery of public transportation.

Other organizations that believe they will incur indirect costs, and wish to claim reimbursement of those costs under a federal grant, must do so in accordance with the provisions of the Super Circular. This will generally require preparation of an indirect cost allocation plan.

For some entities, there are alternatives to the preparation of an indirect costs plan. These options are discussed more thoroughly later in this chapter.

Is Every Entity That Incurs Indirect Costs Required to Prepare an Indirect Cost Allocation Plan?

If a transit agency seeks to fully identify the full costs of transit service delivery, then it is critical that the organization recognize and allocate its indirect costs; otherwise the agency may be misrepresenting the true costs of service delivery.

The benefits of adopting a full cost accounting approach are many, including the ability to:

- Better manage transportation services. A transportation provider must understand all the costs that are associated with the activities required to operate transportation services.
- Determine required revenues. A transportation provider must know the total costs if the provider is to properly bill client agencies. The provider needs an accurate and flexible method that allows the agency to adjust costs, bills, or both if revenues are not sufficient.
- Compare their transportation system's costs and operating performance to similar systems to assess the need for improving their own performance. The benefit of meaningful comparisons can only be made by using comparable total cost and productivity measures.²

Strategies for Cost Classification

If a transit agency or department fully accounts for its transportation costs and treats all of its expenditures consistently under all grant awards, there are no advantages or disadvantages to classifying costs as either direct or indirect. Ultimately, all costs will be recovered under the organization's claims for reimbursement from all of its federal awards.

Many smaller organizations strive to classify most expenses as direct costs. These reasons include, but are not necessarily limited to:

- Cost accounting is typically easier when more costs are classified as direct.

² Burkhardt, Jon E. et al., *Sharing the Costs of Human Services Transportation Volume 2: Research Report*, Transportation Cooperative Research Report 144, p. 75.

- As indirect costs are sometimes interpreted as overhead costs in some organizations, the more costs classified as direct will reflect a more efficiently run organization. This assumption is not necessarily true, as this is a cost classification issue, not an efficiency matter.
- Some smaller nonprofit agencies treat all expenses as direct, allocating typical indirect expenses using the direct allocation method, a process that results in indirect costs being distributed as a direct expense using some equitable base (explained more fully later in this chapter).

Because of the diverse characteristics and accounting practices of some organizations, OMB states it is not possible to specify the types of costs that may be classified as indirect (F&A) costs in all situations.

Identifying When Cost Allocation Plans are Necessary

Experience gained from the annual reviews and independent management reviews conducted by several state DOTs has shown that much confusion exists among transit agencies with respect to indirect costs.

Generally, an entity will require an indirect cost allocation plan if any of the following elements are present:

- A transit system incurs costs that are accumulated in the accounts of another department or division of the organization.
- A nonprofit agency executive staff provides overall policy direction that benefits multiple programs of the organization.
- The level of effort to segregate those costs and assign them to the transit department are disproportionate to the benefits received.

Claiming Indirect Costs Under Federal Awards

Indirect costs are only allowable under federal grant awards to the extent that the costs are consistent with an indirect cost rate proposal. In the event the entity has never negotiated an indirect cost rate with the federal government, a new procedure, known as the *de minimis* rate, is available that may be advantageous to some organizations.

Cognizant Agency for Indirect Cost

A cognizant agency is the organization responsible for reviewing, negotiating, and approving the non-federal entity (NFE)'s cost allocation plan or indirect cost proposal.

Under the Super Circular, the role of the cognizant agency is split into two separate functions:

- Cognizant Agency for Audit
- Cognizant Agency for Indirect Costs

In most cases, the same entity will serve as the cognizant agency for both of these functions. However, this new provision means this may not be true in all cases.

Generally, while the Super Circular applies to all NFEs receiving federal grant awards, there are some areas with differing requirements depending upon organizational status. Determining the cognizant agency for indirect costs is one of those areas.

Nonprofit Organizations – Determining the Cognizant Agency

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 rate proposal. For nonprofit organizations, the U.S. Department of Health and Human Services is typically the cognizant agency.

In general, once a federal agency is assigned cognizance for a particular nonprofit 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.

The NFE seeking approval of its indirect cost rate proposal will submit its written proposal to this agency. After approval, all other federal awarding agencies must accept the indirect cost rate without exception. In the past, nonprofit organizations complained that the organization would go through the effort to prepare and submit a plan, have the plan approved, then have other awarding agencies refuse to accept the rate. OMB specifically aimed to stop that practice with the issuance of the Super Circular.

State and Local Governments – Determining the Cognizant Agency

When a governmental NFE seeks to submit an indirect cost rate proposal, the procedures depend on the size of the organization. If the governmental unit receives more than \$35 million annually in direct federal financial assistance, the unit must submit its indirect cost rate proposal to its cognizant agency for indirect costs (typically assigned by OMB).

A government unit that does not meet the \$35 million threshold does not have to submit the proposal to a cognizant agency (unless expressly requested to do so by a cognizant agency); rather, the government unit develops the indirect cost rate proposal pursuant to Appendix VII of the Super Circular and maintains this documentation on file for subsequent review by federal awarding agencies. The governmental NFE is permitted to use the indirect cost rate in its grant activities, but should be prepared to submit a copy of the plan to a federal awarding agency upon request.

Tribal Organizations

Each tribal government seeking reimbursement of indirect costs must submit its indirect cost rate proposal to the U.S. Department of the Interior, the assigned cognizant agency for indirect costs.

Cognizant Agencies in Pass-Through Relationships

When an organization only receives federal funding as a subrecipient, the pass-through entity can serve as the cognizant agency.

This situation may describe the relationship between many organizations that receive Section 5310, Section 5311, or Section 5339 funds through a state DOT. Unless the entity has a previously negotiated indirect cost rate with another agency, the state DOT may review, negotiate, and approve indirect cost rate proposals. In these instances, approval by a primary recipient will only apply to grants between the primary recipient and subrecipient (see 2 CFR § 200.331(a)(4)).

In some states, when an NFE subrecipient has had an indirect cost rate approved by a primary recipient that is another state agency, the state DOT will accept that rate. The Indiana Department of Transportation

and the Louisiana Department of Transportation and Development are examples of agencies that will accept the rates negotiated and approved by a sister state organization.

Indirect Rate Computation Methods

An indirect cost rate is, in its simplest form, a ratio of indirect costs divided by a base of direct costs. The complexity of the organization will typically dictate the most appropriate method of rate computation.

There are five methods for indirect cost rate computation available to all entities. The direct allocation method is only applicable to private nonprofit (PNP) organizations. These methods are:

- Simplified Method
- Multiple Allocation Base Method
- Direct Allocation Method (PNP only)
- Special Indirect Cost Rates
- De Minimis Method

OMB also recognizes that in some cases, the payment of indirect costs may be limited by statute or regulations. In such cases, it may be necessary to develop a restricted rate.

Generally, most readers of this manual will be concerned with the simplified method or the de minimis method for claiming indirect costs.

Simplified Method

Applicability

All NFEs may use the simplified method. The NFE must make a determination that the organization's major functions benefit from its indirect costs to approximately the same degree; this situation will be true for virtually all readers of this manual.

Process

The entity must first separate the organization's total costs for the base period—usually one year—as either direct or indirect. This is typically developed as a schedule of expenses for all direct operating programs and the sum of indirect costs in a separate table column. Both the direct costs and the indirect costs must exclude capital expenditures and unallowable costs (or listed in a separate column of this same schedule).

Distribution Base

Indirect cost rates, as noted above, are a ratio of indirect costs divided by an equitable distribution base.

The distribution base typically will be one of the following:

- Modified total direct costs (MTDC), which exclude capital expenditures and other distorting items, such as contracts or subawards for \$25,000 or more
- Salaries and wages
- Other base that results in an equitable distribution

The base selected is a local decision, typically made by the chief financial officer of the organization. There is no one best choice; however, for public transit agencies, use of MTDC will typically result in the most accurate computation. While labor costs for transit are considerable, because transit also spends heavily in other cost categories (fuel and vehicle maintenance, for example), MTDC often results in the most equitable distribution of indirect costs, thereby meeting Super Circular requirements.

Once the base is determined, the indirect cost rate is a simple computation that looks like the following:

Indirect Costs/MTDC

Thus, if an organization had indirect costs of \$219,650 and estimated MTDC of \$1,636,750, the indirect cost rate would be calculated as follows:

$$\$219,650/\$1,636,750 = 13.4\%$$

The result is a ratio (13.4 percent) that is applied to the modified total direct costs of the organization's programs for each billing period.

Therefore, if the transit agency had MTDC during a billing period of \$100,000, the agency would compute:

$$\$100,000 \times 13.4\% = \$13,400$$

Allowable indirect costs for the period would be \$13,400. This amount would be added to total eligible direct costs for the period and the sum would equal the allowable amount of federal reimbursement during the period.

Requirements to Use This Method

In order to claim indirect costs under the organization's federal grant award using the Simplified Method, an organization will need to prepare an indirect cost rate proposal (ICRP). Guidance for preparation of the ICRP is found in the appendices to the Super Circular. Once developed, the NFE should then seek submittal guidance from the federal awarding or pass-through agency.

Multiple Allocation Base Method

Where an organization's indirect costs benefit its major functions in varying degrees, indirect costs must be accumulated into separate cost groupings. Each grouping must then be allocated individually to benefitting functions by means of a base that best measures the relative benefits.

Typically, this method of indirect cost rate computation is applicable to very large, complex organizations and is not representative of the typical scenario in rural transit service delivery. For those entities that believe this method is applicable, consult the Super Circular, Appendix IV (for nonprofit organizations) or Appendix VII (for local governments). Due to the complexity of this process, and its limited application to rural transit systems, this manual will not discuss the details of this method.

Direct Allocation Method

Applicability

Some nonprofit organizations treat all costs as direct costs, except for general administration and general expenses. These organizations typically separate their costs into three basic categories:

- General administration and general expenses
- Fundraising
- Other direct functions (including projects performed under federal awards)

Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, or telephone expenses, are prorated individually as direct costs to each of the three categories and to each federal award or other activity using a base most appropriate to the cost being prorated.

This method is appropriate for relatively small organizations with limited indirect costs in the F&A category.

Process

This method is acceptable, provided each joint cost is prorated using a base that accurately measures the benefits provided to each federal award or other activity. The bases must be established in accordance with reasonable criteria and be supported by current data.

To illustrate this method, consider a nonprofit organization that relies heavily on grant funding to support its activities and avoids expenses that cannot be directly charged to its grant awards. The agency operates a senior center, senior employment program, and a rural transit program, funded respectively by Title III-B, the Senior Community Service Employment Program (both funded by the Older Americans Act), and Section 5311.

These programs are managed from a shared facility, where lease and utility costs must be allocated to the respective programs.

Distribution Base

The key to the direct allocation method is the selection of the distribution base. Exhibit 4.1 provides guidance on distribution bases for typical indirect costs incurred under this method. In this case, the agency elects to use facility square footage occupied by each of the programs managed by the organization. This will necessitate measurement of total square footage of the facility along with a description of space consumption of the respective programs. Shared space must be similarly allocated.

For example, consider the allocations developed by this hypothetical organization in Exhibit 4.2. In this example, the agency computes the pro-rata share of facility rent based on the square footage (SF) of space consumed by each program (including distribution of common areas) and arrives at the following basis for distribution of costs.

Exhibit 4.1. Suggested Bases for Allocation

Type of Service	Suggested Base
Accounting	Number of transactions processed
Data processing	System usage
Disbursing service	Number of checks or warrants issued
Legal services	Direct hours dedicated to federally-funded activity
Utilities	Square feet consumed by all direct programs
Rent	Square feet consumed by all direct programs
Local telephone	Number of telephones
Personnel administration	Number of employees
Payroll services	Number of employees

Source: *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, ASMB C-10, (April 8, 1997).

Exhibit 4.2. Illustrative Computations to Support Use of Direct Allocation Method

Program	SF	Percent
Program 1	560	19.31%
Program 2	1,540	53.10%
Program 3	800	27.59%
Total	2,900	100.00%

Computation

As the name implies, these percentages are then used to convert these indirect expenses to direct expenses using the base of square footage as the allocation basis.

Thus, if rent for this facility was \$3,000 per month, Program 1 would be allocated 19.31 percent of those costs, or \$579.31. This expense would be charged to the grant award as a direct expense under facility rent.

Special Indirect Cost Rates

Special rates are, like the multiple allocation base method, more complex and are used relatively infrequently in rural transit grants management. Thus, this manual only introduces the basics of this methodology.

If an organization believes it is a candidate for a special rate, this matter should be discussed with the organization's independent auditor and cognizant agency for indirect costs before proceeding.

De Minimis Method

This is a new method of indirect cost rate computation that was introduced with the publication of the Super Circular. The objective of this new method is to provide a relatively simple path for organizations that had previously been dissuaded from seeking reimbursement

of indirect costs due to the complexity of the process to prepare, submit, and negotiate such costs with the federal government.

The term *de minimis* is Latin and loosely translates to "about minimal things." The term is mostly used in legal circles to describe something that is too small or insignificant to be considered. The use of this term to describe a new indirect cost allocation method is appropriate because, compared to other methods, very little is required on the part of an NFE to use the de minimis rate. If the transit agency is a direct FTA recipient, FTA has developed a De Minimis Rate Certification form that must be completed and uploaded into TrAMS.

Applicability

An NFE that has **never** received a negotiated indirect cost rate or receives less than \$35 million in federal financial assistance may elect to charge a de minimis rate of 10 percent of MTDC as a method to recover indirect costs in federal grant awards. More importantly, there is no indirect cost rate proposal preparation, no submission to a cognizant agency, and no negotiation of the rate. All an entity must do is declare its intent to claim the de minimis rate and all federal awarding agencies must acknowledge this declaration.

Once declared, the rate remains in effect indefinitely, until rescinded by the organization. This method may be used to claim indirect costs by local governments, tribal governments, and nonprofit corporations.

Pass-Through Entities and the De Minimis Rate. One question raised by some lower tier subrecipients since the effective implementation date of the Super Circular is the allowability of the use of the de minimis rate when the entity has only previously claimed indirect costs under its federal awards based on a rate approved by a pass-through entity (e.g., a state agency), not a federal agency.

OMB advises the following:

If a pass-through entity paid negotiated or actual indirect costs to a specific subrecipient in the past, they should continue to negotiate and award indirect costs to that subrecipient in accordance with their prior practice.³

³ OMB, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Frequently Asked Questions (2 CFR § 200.331-8), updated July 2017.

This would disqualify an entity, therefore, from receiving the de minimis rate. However, if the pass-through entity has never awarded or negotiated actual indirect costs with that subrecipient, and the subrecipient does not have a federally approved indirect cost rate agreement, then the pass-through entity can provide the 10 percent de minimis rate or negotiate a rate with that subrecipient.

Indirect Cost Rates with Non-DOTs. Another possible scenario might arise where another unit or program may have negotiated an indirect cost rate with a pass-through agency that is not the state DOT (e.g., for a non-FTA grant award). In this situation, OMB advises:

Each pass-through entity has a separate subaward arrangement with each subrecipient. For example, a State's Health department has negotiated and approved an indirect cost rate to pay indirect costs to a subrecipient. If the State's Transportation department subawards to the same subrecipient, the State's Transportation department should consider the negotiated rate already provided by the State's Health department. Also, since this subrecipient has received a negotiated indirect cost from the State, it does not have the option of using the de minimis rate because this subrecipient has negotiated an indirect rate with another state department.⁴

OMB further states that pass-through entities must consider consistency and fairness when reviewing indirect costs. Therefore, the state DOT described above would have two choices: (a) accept the state Health department's negotiated rate; or (b) negotiate its own rate with the subrecipient. Thus, it is not possible for a subrecipient to have a negotiated indirect cost rate with one state agency and the 10 percent de minimis rate with another state agency.

The NFE has the responsibility to understand its history in federal grants management and ensure that the organization has never had an indirect cost rate with the federal government. Otherwise, claiming the de minimis rate could lead to exceptions and questioned costs in a subsequent audit.

Process

The computation methods for the de minimis rate are simple:

$$\text{Indirect Costs} = \text{MTDC} \times 10\%$$

Issues with Using the De Minimis Rate

One problem that has arisen in the use of the de minimis rate is the NFE's verification that the organization has never received an indirect cost rate with the federal government. For example, a state DOT recently received notice of a longtime Section 5311 subrecipient declaring use of the de minimis rate. However, the nonprofit agency did in fact have a negotiated indirect cost rate in the early 1990s, but as various program funds diminished and grant amounts were consumed by the organization's direct costs, the agency stopped preparing and submitting annual indirect cost rate proposals. Due to turnover in personnel and archival storage of old grant records, the current management was unaware of its past status. Only through the due diligence of the primary recipient (the state DOT) was the subrecipient protected from having de minimis indirect costs disallowed in audit.

In such organizations, a detailed review of past audit reports (which will contain notes about the indirect cost rate) should be conducted to ensure that the agency can meet the eligibility standard for use of the de minimis rate. If necessary, contact the federal funding agency if there is doubt about the agency's status.

Distribution Base

The organization must tabulate the Modified Total Direct Costs (MTDC) for the federally assisted program during each billing period. The amount tabulated for the MTDC may not equal the amount the entity is entitled to receive under the terms of the grant agreement; the MTDC includes all direct costs incurred during the billing period, less certain exclusions, such as capital expenditures and subawards/subcontracts over the first \$25,000 (see definition on the next page).

Requirements to Use This Method

General. As emphasized above, this method is only available to organizations that have never negotiated an indirect cost rate from the federal government and receive less than \$35 million in federal grant awards. Once these

⁴ Ibid., 2 CFR 2 CFR § 200.331-9.

requirements are met, the NFE need only declare its use of the de minimis rate to use this rate in its federal awards. FTA and some state DOTs have prepared documentation that must be completed that represents the entity's declaration of the de minimis rate; however, there are no further administrative requirements imposed by the federal government to use this rate.

The NFE should establish a system of internal controls over the calculation of the de minimis rate. In this process, the entity would ensure consistent treatment of costs in terms of classification (direct or indirect) and that the MTDC were being properly calculated (see Exhibit 4.3).

Advantages of This Method. The main advantage is that use of this rate does not require development and submission of an indirect cost rate proposal (ICRP).

Disadvantages of This Method. Experience has shown that in many organizations, the indirect cost rate may exceed 10 percent, which is the only rate allowable using the de minimis method. Additionally, as Exhibit 4.3 shows, accurate computation of the MTDC will involve several accounting steps. Miscalculation will most often occur when those excluded costs, identified in the above definition (capital expenditures, rental costs, subawards, etc.), are not properly deducted from total direct costs for purposes of calculating the de minimis recovery.⁵

Example of the Use of the De Minimis Rate

In the following exhibits, a simplified example of how the de minimis rate can be applied to a rural transit operation is developed. In Exhibit 4.4, the transit system has already segregated unallowable costs. Direct costs for the period are shown. The system then identifies those costs that must be excluded from the computation of the MTDC.

Three items are excluded, either in whole or in part:

- A portion of purchased transportation, provided by a third-party contractor, is excluded; only the first \$25,000 of this contract is permitted.
- Rent is excluded as this item must not be included in the MTDC.

What are Modified Total Direct Costs (MTDC)?

- All direct salaries and wages
- Applicable fringe benefits
- Materials and supplies
- Services
- Travel
- Subawards and subcontracts, up to the first \$25,000 of each subaward or subcontract over the life of the subaward or subcontract (regardless of the period of performance)

MTDC excludes equipment, capital expenditures, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward and subcontract in excess of \$25,000.

Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

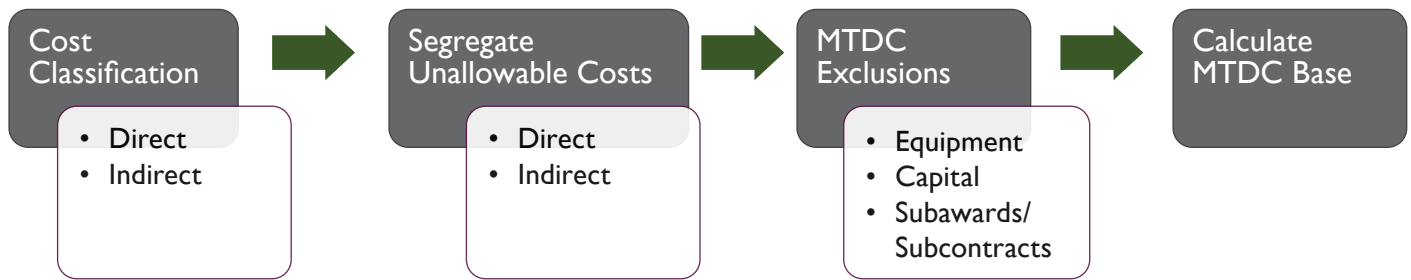
Source: 2 CFR §200.68

- The network server is excluded as it is considered a capital expense (over \$5,000).

In calculating the MTDC, it is only the first \$25,000 of the contract value, ***over the life of the contract***, that can be claimed. Thus, in the above example, this invoice would be the first quarter invoice for this transit agency. In second and subsequent invoices sent to the state DOT, the total of expenditures under the third-party contract must be excluded, as the entity has already included this first \$25,000 in a previous invoice. Even with the start of a new fiscal year for the transit agency, and even if the third-party transit subcontract is extended for two years, the entity would still be limited to claiming the \$25,000 in the MTDC only once.

⁵ Rector, Troy, CPA, Clark Nuber, posted at: <https://clarknuber.com/articles/uniform-guidance-the-de-minimis-indirect-cost-rate/>

Exhibit 4.3. Steps in Preparing to Use the De Minimis Rate



Calculating Indirect Costs Using the De Minimis Rate

Once the entity correctly identifies the MTDC, the process to compute the eligible amount of indirect costs for the billing period is relatively simple.

In Exhibit 4.5, the entity tallies the MTDC and multiplies by 10 percent. This is the amount of indirect costs that may be claimed during the billing period. In this example, indirect costs of \$28,788 are allowable.

Incorporating De Minimis Indirect Costs into Typical Section 5311 Requests for Reimbursement

Allowable costs under federal grant awards follow a formula that was described in Chapter 2:

$$\text{Total Costs} = \text{Total Direct Costs} + \text{Allocable Portion of Indirect Costs} - \text{Rebates/Credits}$$

Thus, in calculating eligible reimbursement of costs under the Section 5311 program, it is important to understand

Exhibit 4.4. Illustration of MTDC Exclusions

Account	Description	Costs, This Period	Excluded from MTDC	Eligible for MTDC
5011	Operators' Salaries and Wages	\$131,458		\$131,458
5012	Operators' Paid Absences	10,516		10,516
5013	Other Salaries and Wages	28,564		28,564
5014	Other Paid Absences	2,285		2,285
5015	Fringe Benefits	19,202		19,202
5024	Audit Services	24,500		24,500
5031	Fuel and Lubricants	34,233		34,233
5034	Supplies	2,675		2,675
5041	Electric	1,687		1,687
5051	Physical Damage Insurance	6,459		6,459
5101	Purchased Transportation ¹	40,000	15,000	25,000
5220	Facility Lease ²	9,000	9,000	0
6821	Network Server ³	5,500	5,500	0
6822	Office Computer ⁴	1,299		1,299
Total		\$317,378	\$29,500	\$287,878

Notes:

¹ The MTDC only includes the first \$25,000 of this third-party contract.

² Rents are excluded from MTDC computations.

³ The network server, with a unit acquisition cost greater than \$5,000 (the agency's capitalization threshold), is treated as capital. Capital expenses are excluded from MTDC computations.

⁴ While similar to a server, the unit acquisition cost of an office computer is below the agency's capitalization threshold and is treated as an operating expense and included in the MTDC.

Exhibit 4.5. Application of De Minimis Rate

Account	Description	Eligible for MTDC
5011	Operators' Salaries and Wages	\$131,458
5012	Operators' Paid Absences	10,516
5013	Other Salaries and Wages	28,564
5014	Other Paid Absences	2,285
5015	Fringe Benefits	19,202
5024	Audit Services	24,500
5031	Fuel and Lubricants	34,233
5034	Supplies	2,675
5041	Electric	1,687
5051	Physical Damage Insurance	6,459
5101	Purchased Transportation	25,000
6822	Office Computer	1,299
Total		\$287,878
De Minimis Rate		10.0%
Allowable Indirect Costs, This Period		\$28,788

that the \$28,788 de minimis indirect costs are added to eligible direct costs incurred during the billing period.

Using an example of a state DOT where all administrative costs are treated as operating costs, Exhibit 4.6 shows how eligible direct costs are totaled for the period, then indirect costs are added to the total to estimate total reimbursable costs for the period. The total amount eligible for operating reimbursement is \$340,666.

For purposes of computing eligible reimbursement, the total amount of the third-party contract and rental expenses are included in total eligible expenses, as both are allowable direct costs under federal awards and the Section 5311 program.

Additional Steps in States That Allow Project Administrative Expenses as a Nonoperating Cost

Under the Section 5311 program, the state DOT may treat a project's administrative expenses incurred by a subrecipient as a separate cost category from capital, planning, or operating expenses. This allows states to consider administrative expenses as nonoperating expenses. FTA may fund nonoperating expenses up to the 80 percent federal share.⁶

In Exhibit 4.7, the same data are shown, but in this case, the state DOT recognizes administrative expenses as nonoperating expenses (and hence a higher federal reimbursement rate). In this case, the indirect costs are based on both operating and administrative expenditures; as such, it is reasonable for the state DOT to request that the entity allocate indirect costs to the two respective categories.

The most effective and accurate method is to develop a schedule for each billing period that would segregate the MTDC by operating and administrative, then multiply each individual line item by 10 percent. Because excluded items from the MTDC could be included in either operating and or administrative, simple multiplication of each sum will not produce accurate results (see Exhibit 4.7). When calculated using this method, the sum of indirect costs attributable to each category will equal the amount of allowable indirect costs calculated in Exhibit 4.4.

⁶ FTA Circular 9040.1G, Chapter III, § 3d.

Exhibit 4.6. Billing Using De Minimis Rate (States Where Administration Costs are Treated as Operating Costs)

Account	Description	Total Costs, This Period	Operations Cost	Capital Cost
5011	Operators' Salaries and Wages	\$131,458	\$131,458	
5012	Operators' Paid Absences	10,516	10,516	
5013	Other Salaries and Wages	28,564	28,564	
5014	Other Paid Absences	2,285	2,285	
5015	Fringe Benefits	19,202	19,202	
5024	Audit Services	24,500	24,500	
5031	Fuel and Lubricants	34,233	34,233	
5034	Supplies	2,675	2,675	
5041	Electric	1,687	1,687	
5051	Physical Damage Insurance	6,459	6,459	
5101	Purchased Transportation	40,000	40,000	
5220	Facility Lease	9,000	9,000	
6821	Network Server	5,500		5,500
6822	Office Computer	1,299	1,299	
Total Allowable Direct Costs		\$317,378	\$311,878	\$5,500
Total Allowable Indirect Costs			\$28,788	
Total Allowable Costs			\$340,666	\$5,500
Federal Share of Allowable Costs			\$170,333	\$4,400
Local Share of Allowable Costs			\$170,333	\$1,100

Types of Negotiated Indirect Cost Rates

Complicating the issue of indirect costs is the fact that for the Simplified Method, Multiple Allocation Based Method, and Special Rates, there are different types of indirect cost rates that each method can produce.

These rates are:

- Final
- Fixed
- Predetermined
- Provisional

A **final rate** means an indirect cost rate applicable to a specified past period that is based on the actual costs of the period. A final rate is not subject to adjustment.

A **fixed rate** is an indirect cost rate that has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

A **predetermined rate** means an indirect cost rate applicable to a specified current or future period, (usually the entity's fiscal year). This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment.

Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency for indirect costs (e.g., this type of rate cannot be used by entities that will merely maintain their indirect cost allocation plans on file).

Finally, a **provisional rate** means a temporary indirect cost rate that is applicable to a specified period that is used for funding, interim reimbursement, and reporting.

Exhibit 4.7. Billing Using De Minimis Rate (States Where Administrative Costs Are Treated as Non-Operating Costs)

Account	Description	Total Costs, This Period	Operating Costs	Administrative Costs	Capital Costs	Operating Indirect Costs	Administrative Indirect Costs
5011	Operators' Salaries and Wages	\$131,458	\$131,458			\$13,146	
5012	Operators' Paid Absences	10,516	10,516			\$1,052	
5013	Other Salaries and Wages	28,564		28,564			\$2,856
5014	Other Paid Absences	2,285		2,285			229
5015	Fringe Benefits	19,202	15,345	3,857		\$1,535	386
5024	Audit Services	24,500		24,500			2,450
5031	Fuel and Lubricants	34,233	34,233			\$3,423	
5034	Supplies	2,675		2,675			268
5041	Electric	1,687		1,687			169
5051	Physical Damage Insurance	6,459		6,459			646
5101	Purchased Transportation	40,000	40,000			\$2,500	
5220	Facility Lease	9,000		9,000			
6821	Network Server	5,500			5,500		
6822	Office Computer	1,299		1,299			130
Total Allowable Direct Costs		\$317,378	\$231,552	\$80,326	\$5,500	\$21,655	\$7,133
Total Allowable Indirect Costs			\$21,655	\$7,133			
Total Allowable Costs			\$253,207	\$87,459	\$5,500		
Federal Share of Allowable Costs			\$126,604	\$69,967	\$4,400		
Local Share of Allowable Costs			\$126,603	\$17,492	\$1,100		

The NFE developing the indirect cost rate proposal is responsible for determining what type of rate is being requested. This decision should be made in consultation with the cognizant agency for indirect costs or, in the case of a pass-through relationship, the primary recipient (the state DOT, for example). Some organizations will only approve certain types of rates and this should be discussed prior to development of the indirect cost rate proposal.

Statutory Limitations on Indirect Rates

In general, the Super Circular has made it easier to seek reimbursement of indirect costs by more clearly delineating cognizant authority and with the implementation of the new de minimis rate.

Organizations should be aware that some federal grant programs have limitations in the amounts that can be claimed as indirect costs, regardless of the rates generated in the indirect cost rate proposal. Each transit agency should carefully research any such statutory limitations, as that limit will take precedence over Super Circular guidance.

FTA does not have any statutory limitations on indirect costs.

Summary Observations about Differing Indirect Cost Computation Methods

Many observers have favorably commented on the new de minimis rate and have encouraged entities that have not previously claimed indirect costs to use this method.

However, the de minimis rate is a flat 10 percent rate, and this rate does not change. If the organization's actual indirect costs are in excess of 10 percent, the organization is not claiming all costs it is entitled to under its federal grant awards. If an organization believes its indirect costs are well above the 10 percent rate, it would be in the best financial interests of the organization to invest the effort to prepare and submit an indirect cost rate proposal. Once the organization has prepared and had its first indirect cost rate proposal approved, the document represents a template that can be readily updated in subsequent years with less effort (for those agencies that require annual re-submission).

Finally, while touted as a simple 10 percent calculation, as can be seen in Exhibits 4.4 through 4.7, subsidiary schedules may need to be prepared to correctly calculate allowable indirect costs.

Must an Organization Develop an Indirect Cost Rate Proposal or Use the De Minimis Rate?

While the case was presented in the beginning of this chapter that computation and application of indirect cost rates to an organization's operating programs, such as transit, will provide management with better decision-making data, there is no requirement to prepare an indirect cost rate proposal or use the de minimis rate.

The reality for most subrecipients of FTA funding is that the amount of Section 5311 funds apportioned to each state DOT is generally not large enough for the state to fund project administration, net costs of operations, and transit capital. Instead, states use various allocation processes to provide each subrecipient a fixed amount (either through apportionment or by formula) of Section 5311 funds. The subrecipient must then develop a budget to use those funds.

The amounts allocated to the subrecipient may represent only a small portion of the total transit budget. In these situations, a subrecipient can draw down its entire allocation of funds based on direct program costs only; there is insufficient funding to cover an additional 10 percent for de minimis expenses. Many managers, therefore, make the decision that since an approved indirect cost rate will not bring additional federal funds to the community, it is not worth the effort to prepare an indirect cost rate proposal.

Nevertheless, management's ability to make key service level decisions, or decisions to contract out or operate services in-house, could be hindered when the fully allocated costs of services is not known. Additionally, NTD reporting may not be accurate when some organizations fail to consider indirect costs. FTA, in the Triennial Review Process, often renders findings in this regard.

Content and Organization of Indirect Cost Rate Proposals

In the event that an organization believes it is in its best interests to prepare and submit an indirect cost rate proposal, the guidance in Appendix IV or Appendix VII of the Super Circular is aimed not only for government and tribal organizations, but for nonprofit agencies as well.

An indirect cost rate proposal typically consists of the following elements:

- Description and functional statement of the organization
- A schedule showing the rates proposed, subsidiary work sheets, and other relevant data
- A copy of the most recent audit or comprehensive annual financial report (or similar document) upon which the rate is based
- Schedules of direct program costs for all costs incurred under the entity's federal grant awards
- A required certification

Description and Functional Statement

This element of the indirect cost rate proposal is designed to provide the cognizant agency with some background information on the organizational structure of the entity, with an indication of those units that generate indirect costs (e.g., facility-related costs and administrative costs) and those units of the organization that represent direct programs or federally assisted activities that benefit from indirect costs.

The indirect cost rate proposal should include a chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency.

This is a one-time submission that only needs to be updated if there is a major organization change within the entity.

What is Central Services Cost Allocation?

A central service cost allocation plan (CAP), sometimes referred to as a statewide or local-wide CAP, is used by state or local governments to distribute executive- and central-level support functions to each transit operating unit.

The transit agency must develop an indirect cost rate proposal annually at the agency level to distribute administrative support and/or overhead costs to the benefiting programs. This indirect cost rate proposal may include the allocable portion of a central service CAP.

Any direct expenses, such as time for purchasing or human resources, should be reported as direct expenses. If the expenses cannot be documented as direct expenses, they fall within central services for indirect cost allocation.

Indirect Cost Rates Proposed

The proposal must include a schedule(s) that indicates the computation and rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to audited financial data.

In the event the proposal is being submitted by a governmental unit, allocated central service costs must be supported by a summary table included in the approved central services cost allocation plan (not required if the agency has previously submitted a central services cost allocation plan for the same fiscal year to the cognizant agency).⁷

Financial Data

Indirect cost rate proposals are typically based on audited financial data (meaning that the rate computed will be predicated on a prior fiscal year).

In the indirect cost rate proposal, the submitting agency must include a copy of the most recent audit, comprehensive annual financial report, etc., upon which the indirect cost rate is based.

Direct Cost Base

The submitting agency must submit a schedule of all direct base costs incurred under the entity's federal awards.

In preparing this schedule, the submitting agency must segregate salary and wage costs from all other direct costs.

Appendix A to Chapter 4 contains examples of a simple presentation of the required schedules.

⁷ Making Dollars and Sense of Transit Finance course, Texas A&M Transportation Institute

Required Certification

No indirect cost rate proposal can be submitted with a required certification. The language for the certification for nonprofit organizations can be found in the Super Circular in Appendix IV, Section D, “Certification of Indirect (F&A) Costs.”

The certification must be signed by either the chair of the governing board or the chief financial officer for the organization.

The certification for governmental and tribal organizations can be found in Appendix VII, Section D3 of the Super Circular. An authorized official must sign the certification.

Frequency of Submission

The Super Circular provides authority for the cognizant agency for indirect costs to approve indirect cost rate proposals for multiple years.

FTA Circular 5010.1E, Award Management Requirements, Appendix G, § 1a, requires that the proposal be prepared annually. If FTA is the cognizant agency, the NFE must upload the most recent rate documentation in the Transit Award Management System (TrAMS), FTA’s platform to award and manage federal grants. Once the rate is approved, FTA does not require subsequent review unless the rate changes by 20 percent, there are accounting system changes, or the rate computation methodology changes.

If FTA is not the cognizant agency, the indirect cost rate proposal must be maintained on file and be available for review at the annual single audit.

Chapter Summary

All costs charged to a federal grant award must be allocable to the specific award. This requirement necessitates that all non-federal entities (NFEs) understand the concepts of direct and indirect costs.

There are no universal rules for classifying costs as direct or indirect under every governmental or nonprofit accounting system. Direct costs are those expenses incurred by the recipient or subrecipient that are directly related to and strictly benefit only the public transportation program. Indirect costs are those that have been incurred for common or joint purposes. Indirect

costs benefit more than one cost objective or program and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved.

Indirect costs are only allowable under federal grant awards to the extent that the costs are consistent with an indirect cost rate proposal (ICRP). In the event the entity has never negotiated an indirect cost rate with the federal government, a new procedure, known as the de minimis rate, is introduced in the Super Circular. The de minimis rate may be advantageous to some organizations.

A cognizant agency for indirect costs is the organization responsible for reviewing, negotiating, and approving the NFE’s cost allocation plans or indirect cost rate proposals. When an organization only receives federal funding as a subrecipient, the pass-through entity can serve as the cognizant agency.

An indirect cost rate is, in its simplest form, a ratio of indirect costs divided by a base of direct costs. The complexity of the organization will typically dictate the most appropriate method of rate computation. Generally, most readers of this manual will be concerned with the simplified method or the de minimis method for claiming indirect costs.

The de minimis rate is a new method of indirect cost rate computation, providing a relatively simple path for organizations that had previously been dissuaded from seeking reimbursement of indirect costs due to the complexity of the process to prepare, submit, and negotiate such costs with the cognizant agency. Any NFE that has **never** received a negotiated indirect cost rate or receives less than \$35 million in federal financial assistance may elect to charge a de minimis rate of 10 percent of the modified total direct costs (MTDC) as a method to recover indirect costs in federal grant awards. The main advantage is that use of this rate does not require development and submission of an ICRP.

For those entities that cannot use the de minimis rate, an indirect cost rate proposal must be developed. The proposal must contain basic elements, including all schedules and worksheets that support computation of the indirect cost rate. All rate proposals must contain a required certification.

Notes

CHAPTER APPENDICES

Several appendices to this chapter demonstrate, in simplified form, the documentation that should be compiled to support an indirect cost rate proposal.

In these appendices, the public transit program is a unit of local government and is housed in the county's department of public works (DPW). Documentation from the County's FY 2017 audit report is included that demonstrates total departmental audited expenses were \$4,937,669 (**Appendix 4A**). Included in this amount are sums derived the County's Central Services Cost Allocation Plan. The DPW wishes to claim indirect costs under its federal grant awards. The DPW houses three major divisions: Public Works, Transit, and Environmental Control; all divisions operate from the same shared facility.

Based on information contained in the narrative that accompanies the county's indirect cost rate proposal, it is revealed that certain services provided under the county's legislative and executive departments, including human resources, finance, legal, and information technology (IT), are allocated to the benefitting operating departments via a Central Services Cost Allocation Plan.

As this manual is intended for use by transit agencies, the chart of accounts for the DPW reflects a traditional Uniform System of Account format (see Chapters 3 and 9 for more information). In **Appendix 4B**, a detailed breakdown of direct expenses, by division, is provided. Indirect costs (labeled "Departmental") and unallowable expenses are similarly shown.

All key elements that need to be documented for an indirect cost rate proposal are summarized in **Appendix 4C**. Data from this schedule are then carried over to a separate schedule (**Appendix 4D**), which reflects the indirect cost rate computation.

Appendix 4A: Management's Summary of Government-Wide Operation: Change in Net Position

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

Governmental Activities Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Receipts			
Program Receipts			
Charges for Services	\$ 3,609,389	\$ 3,586,890	\$ 22,499
Operating Grants, Contributions, and Internet	10,870,680	9,966,286	904,394
Capital Grants	-	610,923	(610,923)
Total Program Receipts	<u>14,480,069</u>	<u>14,164,099</u>	<u>315,970</u>
General Receipts			
Property Taxes Levied for General Operations	1,661,853	1,641,057	20,796
Property Taxes Levied for Senior Services Board	2,404,132	2,365,758	38,374
Property Taxes Levied for Children's Services	510,428	502,126	8,302
Sales Taxes	5,312,020	4,859,352	452,668
Grants and Entitlements	1,087,655	868,012	219,643
Interest	404,705	436,112	(31,407)
Other	2,221,264	2,945,223	(723,959)
Total General Receipts	<u>13,602,057</u>	<u>13,617,640</u>	<u>(15,583)</u>
Total Receipts	<u>28,082,126</u>	<u>27,781,739</u>	<u>300,387</u>
Program Disbursements			
General Government			
Legislative and Executive	3,920,017	3,938,117	18,100
Judicial	2,338,841	2,242,057	(96,784)
Public Safety	4,050,913	3,587,664	(193,349)
Public Works	4,937,669	6,279,755	1,342,086
Health	5,026,790	4,903,592	(123,198)
Human Services	4,939,302	5,431,627	492,325
Conservation and Recreation	274,920	216,237	(58,683)
Economic Development and Assistance	702,590	170,914	(531,676)
Capital Outlay	149,557	50,499	(99,058)
Debt Service			
Principal Retirement	289,060	313,119	24,059
Interest and Fiscal Charges	54,700	64,900	10,200
Total Disbursements	<u>26,684,359</u>	<u>27,468,481</u>	<u>784,122</u>
Increase in Net Position	<u>1,397,767</u>	<u>313,258</u>	<u>1,084,509</u>

Appendix 4B: Detailed Breakdown of Department Direct Programs

Detailed Breakdown of Department of Public Works Smith County Public Works Department For the Fiscal Year Ended June 30, 2017

Object Code	Description	Direct Functional Costs			Other		Total Departmental Costs (F)
		Transit (A)	Roads (B)	Envrionmental (C)	Departmental (D)	Unallowable ^(a) (E)	
501 LABOR							
501.01	Operator's Salaries & Wages	\$ 204,230	\$ 598,745	\$ 820,154	\$ -	\$ -	\$ 1,623,129
501.04	Other (Admisitrative) Salaries & Wages	\$ 204,230	\$ 249,852	\$ 359,622	\$ 168,325	\$ -	\$ 849,584
501.99	Other Salaries & Wages						
502 FRINGE BENEFITS							
502.99	Other Fringe Benefits	\$ 74,999	\$ 230,581	\$ 320,570	\$ 45,737	\$ -	\$ 671,887
503 SERVICES							
503.01	Management Services Fees						
503.02	Advertising Services	\$ 500	\$ 1,200	\$ 2,200	\$ -	\$ -	\$ 3,900
503.03	Professional & Technical Services	\$ 7,028	\$ 396,500	\$ 55,000	\$ 28,452	\$ 600.00	\$ 487,580
503.04	Temporary Services						
503.05	Contract Maintenance Services	\$ 18,100	\$ 25,634	\$ 15,711	\$ 8,654	\$ -	\$ 68,099
503.06	Custodial Services	\$ 1,200	\$ 1,800	\$ 2,400	\$ 800	\$ -	\$ 6,200
503.07	Security Services						
503.99	Other Services	\$ 2,200	\$ 3,685	\$ 15,789	\$ 2,412	\$ 625.00	\$ 24,711
504 MATERIALS AND SUPPLIES							
504.01	Fuel and Lubricants	\$ 68,264	\$ 45,687	\$ 125,896	\$ 652	\$ -	\$ 240,499
504.02	Tires and Tubes	\$ 2,600	\$ 1,698	\$ 3,522	\$ -	\$ -	\$ 7,820
504.99	Other Materials and Supplies	\$ 2,124	\$ 3,258	\$ 5,563	\$ 2,358	\$ 265.00	\$ 13,568
505 UTILITIES							
505.01	Propulsion Power						
505.02	Utilities Other than Propulsion Power	\$ 9,804	\$ 16,789	\$ 22,596	\$ 4,211	\$ -	\$ 53,400
506 CASUALTY & LIABILITY							
506.01	Premiums for Physical Damage Insurance	\$ 15,012	\$ 12,698	\$ 16,987	\$ 2,652	\$ -	\$ 47,349
506.08	Premiums for Other Corporate Insurance	\$ 1,762	\$ 1,863	\$ 2,245	\$ 426	\$ -	\$ 6,296
506.99	Other Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
507 TAXES							
507.03	Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
507.04	Vehicle Licensing & Registration Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
507.05	Fuel & Lubricant Taxes	\$ (4,200)	\$ 3,865	\$ 12,558	\$ 635	\$ -	\$ 12,858
504.99	Other Taxes						

Notes:

(a) The expenses posted in this category represent non-allowable costs, determined pursuant to 2 CFR part 200.

**Detailed Breakdown of Department of Public Works
Smith County Public Works Department
For the Fiscal Year Ended June 30, 2017**

Object Code	Description	Direct Functional Costs			Other		Total Departmental Costs
		Transit	Roads	Envrionmental	Departmental	Unallowable ^(a)	
508 PUCHASED TRANSPORTATION SERVICES							
508.01	In Report	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
508.02	Filing Separate Report	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
508.09	Volunteer Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
509 MISCELLANEOUS EXPENSES							
509.01	Deus & Subscriptions	\$ -	\$ -	\$ -	\$ 6,600	\$ 2,590	\$ 9,190
509.02	Travel & Meetings	\$ 1,000	\$ 2,000	\$ 2,000	\$ 4,000	\$ -	\$ 9,000
509.03	Bridge, Tunnel and Highway Tolls	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
509.07	Bad Debt Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
509.99	Other Miscellaneous Expense	\$ 22,618	\$ 44,658	\$ 52,731	\$ 9,685	\$ 165	\$ 129,857
511 INTEREST EXPENSES							
511.02	Interest on Short-Term Debt Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
512 LEASES AND RENTALS							
512.04	Passenger Revenue Vehicles	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
512.05	Service Vehicles	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
512.07	Maintenance Facilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
512.12	Other General Administration Facilities	\$ 10,560	\$ -	\$ -	\$ -	\$ -	\$ 10,560
513 DEPRECIATION							
530 CENTRAL SERVICES COSTS							
		\$ -	\$ -	\$ -	\$ 215,873	\$ -	\$ 215,873
800 CAPITAL							
		\$ 63,646	\$ 125,695	\$ 256,967	\$ -	\$ -	\$ 446,308
DEPARTMENTAL TOTAL		\$ 573,232	\$ 1,766,208	\$ 2,092,511	\$ 501,473	\$ 4,245	\$ 4,937,669

This total must reconcile back to audit data or other budget data on which the ICRP is based:

Notes:

(a) The expenses posted in this category represent non-allowable costs, determined pursuant to 2 CFR part 200.

Appendix 4C: Supplemental Schedule Prepared Specifically to Show How Indirect Costs Are Calculated

Indirect Costs Schedule Smith County Public Works Department For the Fiscal Year Ended June 30, 2017

Departmental Unit	Direct Costs					
	Total Allowable (A)	Exclusions (B)	Expenditures Not Allowable (C)	Indirect Costs (D)	Direct Salaries and Wages (E)	Other Direct Costs (F)
Transit	\$ 573,232	\$ 63,646	\$ 790		\$ 351,014	\$ 157,782
Roads	\$ 1,766,208	\$ 125,695	\$ 3,190		\$ 1,079,178	\$ 558,145
Environmental Services	\$ 2,092,511	\$ 256,967	\$ 265	\$ -	\$ 1,500,346	\$ 334,933
Subtotal	\$ 4,431,951	\$ 446,308	\$ 4,245	\$ -	\$ 2,930,538	\$ 1,050,860
Departmental Indirect Costs						
Administration	\$ 285,599	\$ -	\$ -	\$ 285,599	\$ -	\$ -
Subtotal	\$ 285,599	\$ -	\$ -	\$ 285,599		
Services Furnished (But Not Billed) by Other Governmental Unites						
Human Resources	\$ 121,835			\$ 121,835		
Finance	\$ 63,785			\$ 63,785		
Legal	\$ 6,064			\$ 6,064		
Information Technology	\$ 24,189	\$ -	\$ -	\$ 24,189	\$ -	\$ -
Subtotal	\$ 215,873	\$ -	\$ -	\$ 215,873	\$ -	\$ -
Total	\$ 4,933,424	\$ 446,308	\$ 4,245	\$ 501,473	\$ 2,930,538	\$ 1,050,860

- Should reconcile to audit data, other finance data used to prepare ICRP (points to Total Allowable)
- Exclusions include pass-through funds and capital (points to Exclusions)
- Although unallowable, such expenses must bear their share of indirect (points to Expenditures Not Allowable)
- Indirect costs should be accumulated in separate accounts within the accounting system (points to Indirect Costs)
- Should reconcile to audit data, other finance data used to prepare ICRP (points to Direct Salaries and Wages)
- Should reconcile to audit data, other finance data used to prepare ICRP (points to Other Direct Costs)

Allowable + Unallowable expenses sum to \$4,937,669.

Appendix 4D: Indirect Rate Calculation

Sample Indirect Cost Rate Proposal - Simplified Method Smith County Public Works Department For the Fiscal Year Ended June 30, 2017

Summary

Total (A)	Exclusions and Non-Allowable (B) + (C)	Indirect Costs (D)	Modified Total Direct Cost (MTDC) (E) + (F)
\$ 4,933,424	\$ 450,553	\$ 501,473	\$ 3,981,398

Indirect Cost Rate Computation

$$(D) \div [(E) + (F)] = \frac{\$ 501,473}{\$ 3,981,398} = 12.6\%$$

Smith County Public Works Department proposes to use an Indirect Cost Rate of 12.6% applied to Modified Total Direct Costs in its Federal grant awards.

CHAPTER 4 QUIZ

1. A subrecipient must follow specific OMB rules on the classification of costs as either direct or indirect.

- True False

2. Fuel consumed in transit buses would be an example of an indirect cost.

- True False

3. The salary of a nonprofit agency's executive director would typically be classified as an indirect cost.

- True False

4. Once an entity determines a cost to be direct or indirect, it must treat that cost consistently in other federal grant awards.

- True False

5. All transit agencies will incur indirect costs.

- True False

6. If an entity seeks to claim indirect costs under its federal awards, it must prepare an indirect cost rate proposal or declare use of the de minimis rate to do so.

- True False

7. Agencies that prepare an indirect cost rate proposal should submit their proposal to the cognizant agency for audit.

- True False

8. Some local governments may not have a cognizant agency; these organizations cannot claim indirect costs under their federal awards.

- True False

9. There are multiple methods for preparing an indirect cost rate proposal, depending on the complexity of the organization.

- True False

10. The distribution base for all indirect cost rates is MTDC.

- True False

11. The de minimis rate can be used by any federal grant recipient.

- True False

12. The de minimis rate can only be used for a maximum of four (4) years; thereafter, the agency must prepare an indirect cost allocation plan.

- True False

13. MTDC includes all allowable expenditures less capital.

- True False

Notes

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National Transit Database (NTD) Policy Manual. The latest version is available at <https://www.transit.dot.gov/ntd/manuals>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- TCRP Report 101: Toolkit for Rural Community Coordinated Transportation Services. Available at <http://www.trb.org/Main/Blurbs/154971.aspx>.
- TCRP Report 144: Sharing the Costs of Human Services Transportation. Available at <http://www.trb.org/Main/Blurbs/165015.aspx>.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 5: COST ALLOWABILITY UNDER FTA AWARDS

Cost Allowability Principles:

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

Conform to any limitations or exclusions set forth in these principles or in the federal award; and

Be adequately documented.

- Excerpted from 2 CFR § 200.403

To live is to exist within the boundaries of what is permissible and what is not. Adaptation to this is called life.

- Elmar Hussein

Goals of this Chapter

This chapter is designed to ensure that transit managers understand the uniform standards that govern cost allowability under federal grant awards and cost categories permitted under FTA funding programs.

This chapter will review:

- Uniform standards of cost allowability under federal awards
- Documentation needed to claim salary and wage costs under federal awards
- Other considerations in determining cost allowability under federal awards
- Cost categories under FTA funding programs

Uniform Standards of Cost Allowability Under Federal Awards

Cost Allowability Goals

Cost allowability is a fundamental element in any transit system's financial management practices. Sound cost allowability practices can improve accounting efficiency, reduce delays in the processing of claims, reduce audit exceptions, eliminate instances of repayment for previously reimbursed amounts, and reduce federal and state scrutiny. Any Section 5311 grantee may incur costs that are not allowable under federal guidelines. These costs may be necessary to meet the needs of that transit system. It is critical, however, that the transit agency account for and understand the difference between allowable and unallowable costs.

Allowability of Costs

As noted in Chapter 2, the Super Circular did not change the basic principles of cost allowability under federal awards. The Office of Management and Budget (OMB) generally adopted the language previously contained in OMB Circular A-122 and OMB Circular A-87.

Any cost charged to a federal grant award must meet **all** the following criteria to be considered an allowable cost:¹

1. Be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles.
2. Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity (NFE).
4. 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.
5. 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.

6. Not be included as a cost or used to meet the cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

What Do These Seven Criteria Mean?

In order to better understand what these requirements mean, transit-based examples are provided to clarify what each of these basic criteria require.

I. Costs Must Be Necessary, Reasonable, and Allocable

This first criterion imposes three requirements on public transit grantees. A cost must be necessary, reasonable, and allocable.

A cost is **necessary** if the expenditure is required for the proper and efficient performance and administration of a public transportation project.

There is some subjectivity in the determination of whether a cost is necessary to a public transit operation. In determining the necessity of a cost, consideration is given to whether:

- The cost claimed for a good or service is directly related to the administration, operation, or maintenance of a public transportation program
- The cost claimed is consistent with an expense category in a standardized transportation chart of accounts and the corresponding account definitions
- The type of cost is incurred by other similar public transit agencies

The subjective nature of the necessary requirement means that the FTA or a state DOT cannot offer prescriptive definitions. Moreover, the range of circumstances and evolving technologies available to public transportation systems could potentially constrain recipients if such decisions were made to adopt narrow and restrictive

¹ 2 CFR §200.403.

guidelines. However, the following general guidance is offered:

Costs may be categorically considered necessary if they are consistent with an object category or account definition in the chart of accounts (such as the USOA). Additionally, cost items that are routinely incurred by multiple grantees may be considered necessary.

Reasonable means that a cost, in its nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a cost, consideration is given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the public transportation program
- Market prices for comparable goods or services
- The restraints or requirements imposed by such factors as: sound business practices, arms-length bargaining,² and federal and state laws and regulations

The Super Circular imposes an obligation on all recipients of federal funds to establish project accounts that can be used to accumulate (journals/ledgers), segregate (chart of accounts), and allocate (cost allocation plans) project costs.

A cost is **allocable** to a project if goods or services involved are chargeable or assignable in accordance with the relative benefits received by the project. In order to be allocable, a cost must be treated consistently in like circumstances.

If a cost benefits multiple projects, it must be distributed in accordance with its relative benefit using a reasonable documented basis.³ Generally, the documented basis is the preparation of an indirect cost allocation plan, discussed in Chapter 4.

2. Conform to Any Limitations or Exclusions Set Forth in These Principles or in the Federal Award

This criterion is somewhat self-explanatory; costs for items not consistent with the Super Circular or the terms and conditions of the grant award are not allowable under federal grant awards. Thus, a cost could be allowable under OMB guidance, but if it was not consistent with FTA guidelines, the cost would be unallowable.

Additionally, costs must be consistent with an approved project grant budget, which may further limit what can be charged to the grant award.

3. Be Consistent with Policies and Procedures that Apply Uniformly to Both Federally Financed and Other Activities of the Non-Federal Entity

This criterion is more difficult to explain. The NFE pays personnel, acquires goods and services, and manages its federally funded programs using the same policies and procedures the NFE uses for general organizational management. Some examples may help clarify this cost principle.

If existing organizational policy for the procurement of goods or services over \$3,500 requires receipt of five written quotes, then similar purchases made using Section 5311 funds must also be completed only after receiving five written quotes.

Similarly, if the agency has a policy of making daily deposits of revenues received, then the organization should apply that same policy to the collection of fare revenues received under the Section 5311 program.

4. Be Accorded Consistent Treatment

Typically, total costs applicable to a federal award program consist of both allowable direct costs and allocable indirect costs.

As noted in Chapter 4, there is no universal rule for classifying costs as either direct or indirect. However, like costs must be treated consistently in like circumstances. A

² *Arms-length bargaining* refers to a legal concept wherein the two parties to an agreement are independent, are not closely related parties, and are free of any undue pressure or influence from the other party.

³ 2 CFR Part 200.405(d).

cost may not be allocated to a federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to another federal award as a direct cost.

The consistency principle applies not only to federally funded activities but also to projects not funded with federal dollars. Like costs in like circumstances may not be treated differently on federal projects as compared to non-federal projects. Similarly, costs must be treated the same whether or not they are included as direct costs in the grant budget.

5. Be Determined in Accordance with Generally Accepted Accounting Principles

GAAP are the foundation of financial accounting and reflect the standards for accounting to meet federal award requirements. GAAP, while varied to accommodate different entities and industries, are based on certain basic principles, such as consistency, relevance, reliability, and comparability. An organization known as the Financial Accounting Foundation oversees the Governmental Accounting Standards Board, which is responsible for setting GAAP requirements for state and local governments.

6. Not Be Included as a Cost or Used to Meet Cost Sharing or Matching Requirements of Any Other Federally Financed Program

This cost criterion embodies two similar elements. First, a cost claimed under a federal award cannot be claimed under a second federal award. This will result in an audit finding and will necessitate the NFE repaying the federal awarding agency.

Second, if the federal grant program requires a local match, funds applied to project costs to meet the local share requirement for one award cannot be claimed as match for any other federal grant award.

7. Be Adequately Documented

The final criterion requires that all costs charged to a federal award be properly documented. Federal regulations do not set forth detailed documentation standards; thus, it

is the responsibility of the NFE to ensure that the expense can be documented.

Documentation for most expenses incurred consists of contemporaneous vendor receipts and corresponding evidence that the vendor has been paid.

There are special considerations for personnel related expenses, particularly if the employee's time is charged, either as a direct or indirect expense, to two or more federal grants. The entire topic of documentation requirements is addressed in more detail later in this chapter.

FTA has adopted these OMB cost allowability principles for determining the allowability of costs under all FTA grant programs, with few exceptions.

Documentation Needed to Claim Salary and Wages Costs Under Federal Grant Awards

Requirements

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. Moreover, these records must meet certain standards; estimates of labor expended under a federal award, or the use of a percentage, do not constitute adequate documentation.

These requirements are clearly delineated in 2 CFR § 200.430(i). Records of work performed must:

- Be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated
- Be incorporated into the official records of the NFE
- Reasonably reflect the total activity for which the employee is compensated by the NFE, not exceeding 100 percent of compensated activities⁴
- Encompass both federally assisted and all other activities compensated by the NFE on an integrated basis, but may include the use of subsidiary records as defined in the NFE's written policy

⁴ For Institutions of Higher Education (IHE), this is per the IHE's definition of Institutional Base Salary.

- Comply with the established accounting policies and practices of the NFE
- Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on:
 - More than one federal award
 - A federal award and a non-federal award
 - An indirect cost activity and a direct cost activity
 - Two or more indirect activities that are allocated using different allocation bases
 - An unallowable activity and a direct or indirect cost activity

What Do These Standards Mean?

For most employees, whose time is 100 percent dedicated to the transit program, the normal payroll records of the organization constitute satisfactory documentation of personnel expenses. However, when an employee falls into one of the categories noted in the last bullet point above, then the entity must ensure that appropriate documentation is maintained and available for audit, or risk these labor costs being disallowed in audit.

This means that for an organization’s payroll policies to be compliant with the documentation requirements of employees paid under federal grant awards, the policy must:

- Be based on current timekeeping systems employed by the organization.
- Account for 100 percent of an individual’s time throughout each pay period (employees cannot simply document only transit hours).
- Provide a reasonable and actual after-the-fact distribution of the employee’s time spent on all activities.

The Super Circular is clear that budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards.⁵

Limited Use of Budget Estimates as Documentation for Allocating Salaries and Wages

For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to federal awards may be used in place of, or in addition to, the records described herein under certain conditions:

- (a) The substitute system must be approved by the cognizant agency for indirect cost. Such systems may include, but are not limited to, random moment sampling, rolling time studies, case counts, or other quantifiable measures of work performed.
- (b) Substitute systems that use sampling methods must meet acceptable statistical sampling standards including:
 - The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in paragraph (i)(5)(iii) of this section;
 - The entire time period involved must be covered by the sample; and
 - The results must be statistically valid and applied to the period being sampled.

Most entities find these requirements too onerous and simply opt to include personnel in the indirect cost pools (F&A).

Source: 2 CFR §200.431(i)(5)

This means that practices that include estimates used in the budgeting process or estimates based on a limited period (e.g., two-week or one-month sample from a prior period) do not meet the documentation requirements.

There are some limited circumstances when estimates of personnel time are permitted; however, the rigor necessary to support the required sampling procedures is substantial. The box below details the requirements necessary to support such billing.

⁵ 2 CFR § 200.430(i)(1)(viii).

Experience has shown that many nonprofit organizations, particularly with executive or administrative staff, bill on a percentage basis. The percentage is derived from an estimate and/or a limited sample of actual hours worked. Neither process meets the stipulations noted above and do not constitute an acceptable basis for the charging of such time under federal grants.

If individuals are now billing on a percentage basis and are unwilling to keep the necessary documentation, or the level of effort to track time to the degree that meets these standards is too burdensome, then the salaries or wages of these individuals should be maintained in an indirect pool and be recovered through an indirect cost allocation method (discussed in Chapter 4).

Other Considerations in Determining Cost Allowability Under Federal Awards

In an effort to provide additional guidance on this topic, OMB has established principles on the allowability of specific types of expenses. Super Circular §200.420 provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles apply whether or not a particular item of cost is properly treated as a direct cost or indirect (F&A) cost.

Allowability of Specific Items

The Super Circular lists 55 specific items (see 2 CFR § 200.421 through 200.475) and provides guidance on allowability or allowability with conditions. The failure to specifically mention a particular cost item does not mean the expense is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and based on the principles described in 2 CFR § 200.402 Composition of Costs through § 200.411 Adjustment of Previously Negotiated Indirect (F&A) Cost Rates Containing Unallowable Costs. In case of a discrepancy between the provisions of a specific federal award and the provisions of 2 CFR § 200.421 through 200.475, the federal award governs. The seven criteria outlined in §200.403 Factors Affecting Allowability of Costs must be applied in determining allowability.

Importance of Training on Cost Principles

Any NFE receiving a federal grant must be familiar with the cost principles in 2 CFR § 200.421 through 200.475. While many agency CEOs and CFOs may have attended Super Circular cost training, typically program managers/supervisors or an accounting technician are tasked with account coding and determining if a selected cost item is eligible under the grant award. Personnel within the organization at all levels in the chain of command should have a working knowledge of these cost principles. The organization's management has the responsibility to ensure that staff are properly trained.

Cost Categories in FTA Grant Awards

Generally, costs associated with FTA grant awards can be classified as either operating or capital expenses. For state administered programs, there may be additional categories (e.g., administrative and planning) depending on the practices of the designated agency that manages the Section 5311 and Section 5310 programs.

State Administration, Planning, and Technical Assistance

A state may elect to use not more than 10 percent of its apportioned Section 5311 and Section 5310 funds (including funds apportioned under Section 5340 Growing States and High-Density States Formula Funds, but not the Rural Transit Assistance Program (RTAP) allocation) to administer the Section 5311 and 5310 programs, conduct related planning, and to provide technical assistance to subrecipients.

Eligible Items Under State Administration

Allowable technical assistance costs may include program planning and development, preparation of vehicle and equipment specifications, management development, coordination of public transportation programs (public and private for-profit and nonprofit), and such research as the state may deem appropriate to promote effective means of delivering public transportation service in rural areas.

The activities eligible for funding under this category may overlap with those activities funded under the RTAP program. FTA offers guidance in FTA Circular 9040.1G,

Chapter III, § 3 on the preferred use of the two funding sources:

While the state may also use RTAP funds for many administrative and technical assistance activities, it is more appropriate to use state administrative funds for technical assistance activities directly related to the administration of the Section 5311 program, (e.g., conducting procurements and monitoring subrecipients). The state should use RTAP to deliver training and technical assistance needed by all rural providers of public transportation, and not only to subrecipients of the Section 5311 program.

Federal Participation Ratios for State Administration Funds

Activities funded with state administrative funds require no local share; however, the state may pass any portion of these funds on to subrecipients for the same purposes and, at its discretion, may impose a local share requirement.

Section 5310 – Traditional vs. Additional Projects

Section 5310 has special requirements for how funds must be used. At least 55 percent of Section 5310 funds apportioned to the state must be used for traditional Section 5310 projects. Traditional projects are “public transportation **capital** projects planned, designed, and carried out to meet the specific needs of seniors and individuals with disabilities when public transportation is insufficient, unavailable, or inappropriate” [emphasis added].⁶ For a project to qualify under the 55 percent traditional project requirement, the project must be designed to benefit seniors and people with disabilities—it is not sufficient that they are included among the people who will benefit from the project. (A state may spend more than 55 percent of its Section 5310 allocation on traditional projects; 55 percent is a minimum.)

Up to 45 percent of a state’s Section 5310 apportionment may be utilized for additional public transportation projects that exceed the ADA minimum requirements, improve access to fixed-route service and decrease individuals’ reliance on ADA paratransit service, or provide alternatives to public transportation that assist seniors and individuals with disabilities with transportation. Federal operating assistance is available for projects that are eligible under this category of Section 5310.

⁶ FTA Circular 9070.1G §13 para. 2.

Capital Expenses

Capital expenses are those costs related to the acquisition, construction, and improvement of public transit facilities and equipment needed for a safe, efficient, and coordinated public transportation system. Generally, capital assets can be defined as a facilities or equipment with a useful life of at least one year and a unit acquisition cost greater than \$5,000. This standard is incorporated in both FTA regulations and in the Super Circular.

Every NFE should adopt these capitalization thresholds. The Super Circular permits an entity to adopt a lower threshold than the \$5,000 cited above; however, this will increase the administrative burden on the entity as these items will be subject to asset management requirements.

Eligible Capital Items Under Section 5311

Eligible capital items under the Section 5311 program include:

- Buses
- Vans or other paratransit vehicles
- Radios and communications equipment
- Passenger shelters, bus stop signs, park and ride lots, and similar passenger amenities
- Wheelchair lifts and restraints
- Vehicle rehabilitation, remanufacture, or overhaul
- Preventive maintenance
- Extended warranties that do not exceed industry standards
- Public transportation portion of ferryboats and terminals
- Operational support such as computer hardware or software
- Installation costs, vehicle procurement, testing, inspection, and acceptance costs
- Construction or rehabilitation of transit facilities including design, engineering, and land acquisition

- Facilities to provide access for bicycles to transit facilities or equipment for transporting bicycles on transit vehicles
- Lease of equipment or facilities when a lease is more cost effective than purchase⁷
- The capital portion of costs for service provided under contract, which includes depreciation and interest on facilities and equipment, as well as allowable capital costs such as preventive maintenance
- A joint development improvement that:
 - Enhances economic development or incorporates private investment, such as commercial and residential development
 - Enhances the effectiveness of public transportation and is related physically or functionally to public transportation, or establishes new or enhanced coordination between public transportation and other transportation
 - Provides a fair share of revenue that will be used for public transportation
 - Provides that a person making an agreement to occupy space in a facility shall pay a fair share of the costs of the facility through rental payments and other means
 - Does not include outfitting of commercial space (other than an intercity bus or rail station or terminal) or a part of a public facility not related to public transportation
 - A joint development improvement may include:
 - Property acquisition
 - Demolition of existing structures
- Site preparation
- Utilities
- Building foundations
- Walkways
- Pedestrian and bicycle access to a public transportation facility
- Construction, renovation, and improvement of intercity bus and intercity rail stations and terminals
- Renovation and improvement of historic transportation facilities
- Open space
- Safety and security equipment and facilities (including surveillance and related intelligent transportation system applications)
- Facilities that incorporate community services such as daycare or health care
- Facility improvements for an intermodal transfer facility or transportation mall
- Construction of space for commercial uses
- The introduction of new technology, through innovative and improved products, into public transportation
- Non-fixed-route paratransit transportation services in accordance with Section 223 of the Americans with Disabilities Act of 1990 (ADA) (42 U.S.C. 12143), but only for grant recipients that are in compliance with applicable requirements of the Act, including both fixed-route and demand-responsive service, and only for amounts not to exceed 10 percent of a recipient's annual formula apportionment under Section 5311⁸

⁷ Note that when lease of equipment or facilities is treated as a capital expense, the state must establish criteria for determining cost effectiveness, in accordance with FTA regulations, "Capital Leases," 49 CFR part 639.

⁸ Under the FAST Act, recipients of FTA Section 5311 funds may use up to 20 percent of the amounts apportioned under Section 5311 for ADA complementary paratransit service at an 80 percent federal share if the recipient meets at least two of the following requirements: (I) provides an active fixed route travel training program that is available for riders with disabilities, (II) provides that all fixed route and paratransit operators participate in a passenger safety, disability awareness, and sensitivity training class on at least a biennial basis, or (III) has memoranda of understanding in place with employers and the American Job Center to increase access to employment opportunities for people with disabilities.

- Establishing a debt service reserve, made up of deposits with a bondholder’s trustee, to ensure the timely payment of principal and interest on bonds issued by a grant recipient to finance an eligible project under Chapter 53 of Title 49, United States Code – Public Transportation
- Mobility management, consisting of short-range planning, management activities, and projects for improving coordination among public transportation and other transportation service providers carried out by a recipient or subrecipient through an agreement entered into with a person, including a governmental authority, but excludes operating expenses
- Associated capital maintenance, including equipment, tires, tubes, and material, each costing at least 0.5 percent of the current fair market value of rolling stock comparable to the rolling stock for which the equipment, tires, tubes, and material are to be used; and reconstruction of equipment and material, each of which after reconstruction will have a fair market value of at least 0.5 percent of the current fair market value of rolling stock comparable to the rolling stock for which the equipment and material will be used
- Preventive maintenance
- Extended warranties that do not exceed industry standards
- Operational support such as computer hardware or software
- Installation costs, vehicle procurement, testing, inspection, and acceptance costs
- Lease of equipment or facilities when a lease is more cost effective than purchase⁹
- Transit-related intelligent transportation systems, dispatch systems, and fare collection systems
- Purchase and installation of benches, shelters, and other passenger amenities (related to 5310-funded vehicles)
- Acquisition of contracted transportation services (may include ADA paratransit services), including capital and operating expenses associated with contracted service¹⁰
- Mobility management and coordination programs among public transportation providers and other human service agencies. Meant to build coordination among existing transportation providers with the result of expanding service availability (not including service operating expenses). Activities may include:
 - Promotion, enhancement, and facilitation of access to transportation services
 - Short-term management activities to plan and implement coordinated services
 - Support of state and local coordination bodies
 - Operation of transportation brokerages to coordinate providers, funding agencies, and passengers
 - Provision of coordination services (e.g., customer-oriented travel training or trip assistance)
 - Development and operation of one-stop traveler call centers

Eligible Capital Items Under Section 5310

Capital expenses under in a Section 5310 project must be planned, designed, and carried out to meet the special needs of seniors and individuals with disabilities when public transportation is insufficient, unavailable, or inappropriate.

Traditional Section 5310 eligible capital items include:

- Buses and vans
- Radios and communications equipment
- Passenger shelters, bus stop signs, park and ride lots, and similar passenger amenities
- Wheelchair lifts and restraints
- Vehicle rehabilitation, remanufacture, or overhaul

⁹ Note that when lease of equipment or facilities is treated as a capital expense, the state must establish criteria for determining cost effectiveness, in accordance with FTA regulations, “Capital Leases,” 49 CFR part 639.

¹⁰ The eligibility of contracted service as a capital expense is limited to the Section 5310 program.

- Operational planning for the acquisition of technologies to plan and operate coordinated systems (acquisition of technology is also an eligible capital expense)
- Acquisition of rolling stock (and related activities) and acquisition of services to support ADA paratransit service¹¹

Additional Section 5310 eligible capital items (projects that cannot be included to meet a state's requirement to spend 55 percent of its allocation on traditional projects) include:

- Capital expenses associated with public transportation projects that exceed the requirements of the ADA, for example:
 - Expanding paratransit service beyond the ¾-mile requirement
 - Acquisition of vehicles and equipment to accommodate mobility aids to exceed the requirements under the ADA
 - Installation of additional mobility device securement locations in public buses beyond what is required by the ADA
 - Providing accessible feeder service to commuter transit
- Capital expenses associated with transportation projects that improve access to fixed-route service and decrease individuals' reliance on ADA paratransit service, for example:
 - Making accessibility improvements (adding accessible pathways, elevators, wayfinding, etc.) to transit and intermodal stations and stops
 - Travel training
- Capital expenses associated with projects that provide alternatives to public transportation, for example, purchasing vehicles to support accessible taxi, ride-sharing, and/or vanpooling programs

Discussion of Capital Expenses

As can be seen, the list of eligible capital items is fairly exhaustive and may include additional items not listed above with the permission of the state DOT. Similarly, a state may elect not to fund projects that otherwise are permitted by FTA to be funded as a capital item. Eligibility of items should be discussed with the state DOT in the grant application process.

Also of note in this list are several items that, on the surface, appear to be operating expenses. These items are discussed in more detail below.

Preventive Maintenance

FTA permits states, at their discretion, to treat maintenance as either an operating or capital expense for Section 5311 and Section 5310 funding purposes. FTA notes that the NFE will likely classify these funds as operating expenses in its internal accounting system, under generally accepted accounting principles. However, for purposes of invoicing the state, the entity can be compensated at the federal capital participation ratio.

FTA defines maintenance as “all maintenance.” Thus, even minor maintenance items, such as oil changes, can be invoiced at the higher federal participation rate (80 percent).

Section 5311-funded transit systems and Section 5310 subrecipients should consult their state DOT to determine if the state permits this practice.

Extended Warranties

The purchase of extended warranties is an allowable federal capital expense. However, this eligible item has limits. FTA Circulars for Section 5311 and 5310 note that such warranties must “not exceed industry standards.”¹² The difficulty here is the establishment of what is the industry standard for the equipment being purchased.

While many manufacturers offer extended warranties, NFEs should be cautious; various consumer advocacy groups have sometimes questioned the cost effectiveness of such warranties.

¹¹ Some conditions apply; see FTA Circular 9070.1G § 14(g).

¹² FTA Circular 9040.1G (for Section 5311) and FTA Circular 9070.1G (for Section 5310).

The purchasing entity should exercise due diligence in the purchase of such warranties. Considerations might include:

- Evaluation of a component’s mean time to failure
- Past experience with similar products
- Cost of the extended warranty relative to unit acquisition cost
- List of excluded elements in the extended warranty
- Experience of peer systems that use similar equipment

Moreover, the purchasing entity should discuss and come to agreement with the state in advance of the purchase to ensure this cost will be eligible and there is agreement on the length of the term.

Capital Cost of Contracting (Section 5311)

For 5311 recipients who contract with a third party to provide transit services, FTA will provide assistance for the “the capital portion of costs for service provided under contract.”¹³

Under this strategy, known as the “Capital Cost of Contracting,” only **privately-owned assets are eligible**. The recipient may not capitalize any assets (e.g., a vehicle, equipment, or facility) that have any remaining federal interest or items purchased with state or local government assistance. Similarly, recipients may not capitalize any costs under the contract that were incurred delivering services ineligible for FTA assistance (e.g., charter or school bus service). Recipients may compute capital costs as a fixed percentage of the contract cost without further justification.

This strategy represents a viable means to stretch local dollars committed to the transit program as certain operating expenses associated with the service contract may be billed at the federal capital participation rate. In order to use this method, the entity that purchases transportation services from a private entity must first determine the type of contract. For convenience, FTA has defined seven (7) contract types and, for accounting

simplicity, established capital participation rates for each type of contract (see Exhibit 5.1).

Acquisition of Contracted Transportation Service (Section 5310)

Section 5310 recipients may seek reimbursement at the federal capital reimbursement rate for operating and capital costs associated with purchased transportation services for seniors and people with disabilities. Transportation services could be acquired under a contract, lease, or other arrangement. (User-side subsidies are considered one form of eligible arrangement.)¹⁴

ADA Paratransit Operations

In 2005, the enactment of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA–LU, Pub. L. 109–59) expanded eligible capital activities to include some ADA complementary paratransit expenses.

When used in the Section 5311 program, the applicant must meet certain conditions, as follows:

- The subrecipient must be in full compliance with all paratransit and fixed route ADA requirements.
- The amounts programmed for this purpose cannot exceed 10 percent of the state DOT’s annual apportionment of Section 5311 funds.

When used in the Section 5310 program, capital and operating costs for ADA paratransit services are reimbursable at the capital rate, assuming the project is in the area’s coordinated plan and that services are provided by:¹⁵

- A private nonprofit organization; or
- A state or local governmental authority that:
 - Is approved by a state to coordinate services for seniors and people with disabilities (e.g., an area agency on aging or a public transportation agency identified by the state to coordinate transportation services for a given area); or

¹³ FTA Circular 9040.1G, Chapter III, § 3b(15).

¹⁴ A user-side subsidy is when a third party provides a mechanism for a targeted group of riders to pay less than the full fare to ride transportation. The transportation provider delivers the trips and obtains payment for the subsidized portion from the third party.

¹⁵ FTA Circular 9070.1G §5 defines eligible recipients for traditional Section 5310 project funds.

- Certifies that there are no nonprofit organizations readily available in the area to provide the service.

Mobility Management

Mobility management consists of short-range planning and management activities and projects for improving coordination among public transportation and other transportation service providers. Mobility management helps to build coordination among existing transportation providers, making service more available. Mobility management does not include operating public transportation services. However, some activities that might normally be considered operations (such as scheduling of trips) can be reimbursed as a capital expense when tied with a Mobility Management strategy.

The Section 5310 circular provides many examples of eligible mobility management expenses;¹⁶ however, to be eligible, the project must be planned, designed, and carried out to meet the special needs of seniors and people with disabilities.

Federal Participation Ratios for Capital Expenses

In general, federal participation in capital expenses is limited to 80 percent of the project’s net capital cost. (There are some exceptions, which are discussed in more detail in Chapter 6.)

Exhibit 5.1. Contract Types and Percent of Contract Cost Allowed for Capital Cost of Contracting

Type of Contract	Description	Percent of Contract Cost Allowed as Capital Expense
Service Contract #1	Contractor provides maintenance and service using subrecipient provided vehicles.	40%
Service Contract #2	Contractor provides service. Subrecipient provides vehicles and performs vehicle maintenance.	0%
Vehicle Maintenance Contract	Contractor provide maintenance. Subrecipient operates service and provides vehicles.	100%
Vehicle Lease Contract	Contractor provides vehicles. Subrecipient operates vehicles and performs vehicle maintenance.	100%
Maintenance/Lease Contract	Contractor provides vehicles and vehicle maintenance. Subrecipient operates vehicles.	100%
Turnkey Contract	Contractor provides vehicles, vehicle maintenance, and operates service.	50%
Vehicle/Service Contract	Contractor provides vehicles and operates service. Subrecipient provides vehicle maintenance.	10%

Source: FTA Circular 9040.1G, Appendix F.

¹⁶ FTA Circular 9070.1G §14(f).

Application of Capital Cost of Contracting – Three Scenarios

Example 1 – Contractor Provides Service and Vehicle Maintenance Using Grantee Owned Vehicles

A subrecipient competitively secures a third-party contract to operate transit services and maintain system vehicles. The value of the contract is \$200,000 per year.

Example 2 – Contractor Provides Service, Performs Vehicle Maintenance, and Provides Vehicles

A subrecipient competitively secures a third-party contract to provide turnkey services (operation, maintenance, provision of vehicles). The value of the contract is \$200,000 per year.

Example 3 – Contractor Provides Vehicles and the Grantee Provides Transit Service and Vehicle Maintenance

A subrecipient competitively secures a third-party contract to provide vehicles. The value of the contract is \$50,000 per year.

Exhibit 5.2. Computation of Federal and Local Share, Capital Cost of Contracting – Three Scenarios

Ex.	Contract Type	Allowable Capital Percentage	Contract Amount	Capital Amount			Operating
				Total Allowable	Federal Share	Local Share	
1	Service #1	40%	\$200,000	\$80,000	\$64,000	\$16,000	\$120,000
2	Turnkey	50%	\$200,000	\$100,000	\$80,000	\$20,000	\$100,000
3	Vehicle Lease	100%	\$50,000	\$50,000	\$40,000	\$10,000	\$0

Operating Expenses

Eligible Operating Items Under FTA Programs

Operating expenses are those costs directly related to system operations. While FTA provides the states great latitude in determining which expenses should be classified as administration or operations, at a minimum, state DOTs must consider the following items as operating expenses:

- Fuel
- Oil
- Driver salaries and fringe benefits
- Dispatcher salaries and fringe benefits
- Licenses

A first-time applicant for federal funds must be fully aware of what the state DOT defines as eligible operating expenses. This is typically articulated in a State Management Plan.

Eligible Operating Expenses Specific to Section 5310

As previously discussed, Section 5310 projects are grouped into traditional and additional projects. Traditional projects are capital projects (even though they may contain expenses commonly considered to be operating expenses). Operating assistance is available for additional projects, including:¹⁷

- Operating expenses associated with public transportation projects that exceed the requirements of the ADA, for example:
 - Expanding paratransit service beyond the ¾-mile requirement
 - Expanding ADA paratransit service hours beyond fixed-route service hours
 - The incremental cost of providing same day service

- The incremental cost of making door-to-door service available to eligible ADA paratransit riders
- Enhancing the level of service by providing escorts or assisting riders through the door of their destination
- Providing accessible feeder service to commuter transit

- Operating expenses associated with transportation projects that improve access to fixed-route service and decrease individuals' reliance on ADA paratransit service, for example:

- Improving signage or wayfinding technology
- Travel training

- Operating expenses associated with projects that provide alternatives to public transportation, for example:

- Supporting the administration and expenses related to voucher programs for transportation services offered by human service providers
- Supporting volunteer driver and aide programs, including costs associated with the administration, management, and coordination of the program(s)

Federal Participation Ratios for Operating Items Under FTA Programs

In general, federal participation in operating expenses is limited to 50 percent of the project's net operating cost. The project's net operating cost refers to the operating cost less operating revenues (e.g., farebox revenues). The nuances of defining and calculating net operating cost are discussed further in Chapter 6. However, providing service under a contract with a state or local human service agency can help generate revenue that can be used to help increase funds available to meet the local match requirements (even if the source of funds for the social service agency is federal).

¹⁷ Up to 45 percent of a recipient's Section 5310 allocation can be used for operating assistance.

Revenue Derived from the Provision of Service Under Contract to a State or Local Human Service Agency.

Funds received pursuant to a service agreement with a state or local social service agency or a private social service organization may be used as local match¹⁸ or can be treated as revenue to reduce the net operating cost of the service. The difference between these two approaches is discussed in more detail in Chapter 6.

In either case, whether using the payments as match or to reduce the net cost of service, the cost of providing the contract service must be included in the total project cost.

What Does FTA Mean that the Cost Must Be Included in Total Project Cost?

This requirement means that both revenues and expenses must be in one fund, one department, or one account of the transportation provider.

Consider the example of a private nonprofit community action program that runs the Head Start program in its service area. The agency is also the provider of rural public transit service. Due to Head Start safety regulations, the agency runs Head Start transportation as a separate service from its general public program. While Head Start would be recognized as eligible matching funds, in this case the agency could not use Head Start revenues as match because the expenses are in the agency's Head Start fund, not their public transit fund.

Other Federal Sources as Local Share¹⁹

Federal participation in operating expenses may be higher than 50 percent if the federal funds come from other, non-U.S. DOT federal programs. FTA has not published a list of funding sources that can or cannot be used as local match for many years. In the past, FTA has cited U.S. Government Accountability Office (GAO) reports that have documented federal grant programs that could be used to support passenger/client transportation.²⁰ If the entity purchasing service from the transit provider was using funds cited on the list, FTA would generally

recognize that funding source as allowable to be used as match.

Administrative Expenses

Under Section 5311, states may treat local provider (subrecipient) administrative expenses separately from capital, planning, or operating expenses; administrative expenses may be reimbursed at 80 percent federal share. Examples of administrative costs include (but are not limited to):

- General administrative expenses (e.g., administrative staff salaries)
- Marketing expenses
- Insurance premiums or payments to a self-insurance reserve
- Office supplies
- Facilities and equipment rental
- Standard overhead rates
- Costs for drug and alcohol testing
- Interest on short-term loans for operating assistance (if approved by the state)
- Administrative costs for promoting and coordinating ridesharing (if the activity is part of a coordinated public transportation program)

¹⁸ 49 U.S.C § 5311(g)(3)(A) and 49 U.S.C. § 5310(d)(3)(A).

¹⁹ National Aging and Disability Transportation Center, "Section 5307, 5310, and 5311: Using Non-DOT Federal Funds for Local Match" posted on Mar 31, 2017 to <https://www.nadtc.org/news/blog/>

²⁰ U.S. General Accounting Office, *Transportation Disadvantaged Populations: Some Coordination Efforts Among Programs Providing Transportation Services, but Obstacles Persist*, GAO-03-697 (Washington, D.C.: 2003), and U.S. Government Accountability Office, *Transportation for Older Adults: Measuring Results Could Help Determine if Coordination Efforts Improve Mobility*, GAO-15-158 (Washington, D.C.: 2015).

Chapter Summary

The Super Circular did not change the basic principles of cost allowability under federal awards. Any cost charged to a federal grant award must meet seven criteria to be considered an allowable cost.

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. Estimates of labor expended under a federal award, or the use of a percentage, do not constitute adequate documentation.

Capital expenses are those costs related to the acquisition, construction, and improvement of public transit facilities and equipment needed for a safe, efficient, and coordinated public transportation system. Generally, capital assets can be defined as facilities or equipment with a useful life of at least one year and a unit acquisition cost greater than \$5,000. A state DOT may elect not to fund projects that otherwise are permitted by FTA to be funded as a capital item. Eligibility of items should be discussed with the state DOT in the grant application process.

Several items that, on the surface, appear to be operating expenses, may be reimbursed at the capital reimbursement rate under Section 5311. Included in those items are preventive maintenance, extended warranties, capital cost of contracting, some paratransit operations, and mobility management. Also, under Section 5310, purchase of service may be reimbursed at the capital reimbursement rate.

Operating expenses are those costs directly related to system operations. FTA provides a state DOT great latitude in determining which expenses should be classified as administration or operations. Federal participation in operating expenses is limited to net operating expenses: operating expenses less operating revenues. States may further define what constitutes operating revenues, but at a minimum, operating revenues must include passenger fare revenues.

CHAPTER 5 QUIZ

1. Although OMB has basic standards of allowability, FTA establishes its own standards that should be followed by all FTA grantees.classification of costs as either direct or indirect.

- True False

2. Anytime an NFE believes a cost to be reasonable is sufficient justification to charge the expenditure to a federal grant award.

- True False

3. A cost must meet at least five (5) of the basic standards of allowability to be charged to a federal grant award.

- True False

4. All costs charged to FTA grants must be adequately documented.

- True False

5. Estimates of employee time committed to an FTA grant award is considered satisfactory documentation as long as the sample contains at least 14 days.

- True False

6. Preventive maintenance must always be charged to an FTA grant award as an operating expense.

- True False

7. When an FTA grant recipient or subrecipient enters into a turnkey contract with a private operator, 100 percent of the contract costs can be capitalized.

- True False

8. If a fixed route provider of transit services receives Section 5311 funding, up to 20 percent of the costs of complementary paratransit can be treated as a capital expense.

- True False

9. A state may use its discretion to classify dispatcher salaries and wages as a project administrative expense and reimburse the expense at the 80 percent federal participation ratio.

- True False

10. When a human service agency purchases a bus pass to provide to a client of the agency, the transit system must count the revenue as organization-paid fares.

- True False

11. Head Start funds may never be used as local match to a Section 5311 operating assistance grant.

True

False

Notes

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National Aging and Disability Transportation Center (NADTC) Section 5307, 5310, and 5311: Using Non-DOT Federal Funds for Local Match. Available at <https://www.nadtc.org/news/blog/section-5307-5310-and-5311-using-non-dot-funds-for-local-match/>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 6: LOCAL MATCH TO FTA GRANT AWARDS

Cost Sharing, Matching, or Non-Federal Share

...the portion of project costs not paid with federal assistance (unless otherwise authorized by federal statute).

- 2 CFR § 200.29 and FTA Award Management Requirements (FTA Circular 5010.1E)

Cost Allowability Principles:

Fiscal and accounting structures are necessary to properly document match. The first step in setting up a successful match tracking system is the development of a match budget. This projected budget lays out how much is cash (cash outlays by the grantee for purposes of the project) and how much is in-kind (the value of goods and service provided for benefit of the project by others).

- Terry Cross, Executive Director, National Indian Child Welfare Association

Goals of this Chapter

This chapter reviews federal guidelines for matching requirements for federal awards. The chapter also addresses the unique matching requirements for Federal Transit Administration grant awards.

This chapter will review:

- Federal guidelines for the matching requirement under federal grant awards
- Unique matching requirements under FTA grant awards
- Limitations on the transfer of funds from other FTA programs to meet match requirements
- Special match provisions under the Section 5311(f) Intercity Bus Program

Local Match

Federal participation in transit projects is limited, in virtually all grant programs, to less than 100 percent of the cost of the project supported by the federal grant. The portion of the project's cost that is not covered by the federal grant is called the local share or local match. For grant recipients to be able to utilize the federal funds available under the federal grant, the non-federal entity (NFE) must provide the required local match.

Local match requirements vary by expense type and by grant program.

Federal Participation in Capital Expenses

The federal share for capital projects that receive funding under FTA grants may not exceed 80 percent of the net project cost. However, there are two circumstances when federal participation rates can be higher than 80 percent.

Exceptions. The federal share may exceed 80 percent for certain projects related to the ADA, the Clean Air Act (CAA), and certain bicycle projects as follows:

- **Vehicles.** The federal share for the acquisition of vehicles for purposes of complying with or maintaining compliance with the ADA or the CAA is 85 percent. A revenue vehicle that complies with 49 CFR § 38 may be funded at 85 percent federal share.¹
- **Vehicle-Related Equipment and Facilities.** The federal share for project costs for acquiring vehicle-related equipment or facilities (including clean fuel or alternative fuel vehicle-related equipment or facilities) for purposes of complying or maintaining compliance with the CAA, or required by the ADA, is 90 percent. FTA considers vehicle-related equipment to be equipment on and attached to the vehicle. The grant recipient may itemize the cost of specific, discrete, vehicle-related equipment being purchased to comply with ADA or CAA. The federal share is 90 percent of the cost for these itemized elements.
- **Bicycle Facilities.** As provided by 49 U.S.C. § 5319, the federal share is 90 percent for those bicycle access projects or portions of bicycle access projects designed to:

- Provide access for bicycles to public transportation facilities.
- Provide shelters and parking facilities for bicycles in or around public transportation facilities.
- Install equipment for transporting bicycles on public transportation vehicles.

Sliding Scale. Higher federal share rates for capital costs are available to 14 states described in 23 U.S.C. 120(b). The rates are based on the ratio of designated public lands area to the total area of these 14 states. For FTA capital grants, the federal share increases from 80 percent in proportion to the share of public lands in the state.

A second set of states are also able to receive higher rates of federal participation in FTA grants. These rates are available only for states that have already in place signed agreements with FHWA under 23 U.S.C. 120(b)(2). The rates are based on the ratio of the area of nontaxable Indian land, public domain lands (reserved and unreserved), national forests, and national parks and monuments to the total area of each state.

The sliding scale rates for these states are found in Appendices 1 and 2 at the end of this chapter.

Federal Participation in Operating Expenses

Federal participation in operating expenses is limited to only 50 percent of "net operating expenses." FTA defines net operating expenses as:

...those expenses that remain after the provider subtracts operating revenues from eligible operating expenses.²

States may further define what constitutes operating revenues, but at a minimum, operating revenues must include passenger fare revenues.

Note that states that qualify for the sliding scale for capital projects are eligible for operating assistance for net operating expenses equivalent to 62.5 percent of the capital participation rate in the sliding scale states.

¹ 49 CFR 38 defines the ADA accessibility requirements for transportation vehicles.

² FTA Circular 9040.1G, Formula Grants for Rural Areas, Chapter III, § 3c.

Complexities in Determining What Revenues Must be Deducted from Total Operating Expenses

The process of determining which revenues must be deducted from total operating expenses is more complex than it appears.

Revenue collected at the farebox must obviously be deducted from operating expenses; however, passenger fares also include prepaid fares (e.g., multiride passes, monthly or weekly passes) and special programs such as reduced passes or ticket prices for students, the elderly, or individuals with disabilities. Generally, if the rider pays for the fare, this revenue must be deducted from total operating expenses.

Included in this category are “Organization Paid Fares.” Examples of this type of revenue would be:

- A local human service agency purchases tokens, tickets, or passes in bulk to distribute to clients.
- A university pays a transit agency so that students can ride fare-free. The university pays per student rider. The transit agency must report such a payment from a university as passenger fares.

However, a voluntary or mandatory fee that a university or similar institution imposes on all students for free or discounted transit service is not farebox revenue. If the agreement with the transit agency is structured with this type of arrangement (as opposed to agreements that obligate the university to pay per student ride provided), the revenues from student fees are considered local revenue and are not deducted from total operating costs.

If a transit agency receives financial assistance from the state to assist in reducing the fares paid by special user groups (e.g., older adults or individuals with disabilities), this revenue is reported as state government revenue and is not deducted from total operating costs.

Other Local Revenue Sources

There are other sources of revenue that may be subtracted from operating expenses to calculate the next operating expenses (e.g., revenue from contracts for service); however, these other considerations are discussed in the following section on Cash Match.

Match is either **cash or an in-kind contribution**; both must be recorded in the organization’s accounting system

to meet the criterion that the match is verifiable from the NFE’s records.

Cash Match

The receipt of cash to be used as local match must document the **amount** and **source** of the revenue.

FTA Circular 5010.1E Award Management Requirements cites several potential sources of cash match that are permissible under FTA awards:

- Cash from non-governmental sources other than revenues from providing public transportation services
- Non-farebox revenues from the operation of public transportation service, such as the sale of advertising and concession revenues
- Revenue from service agreements with state or local social service agencies or private social service organizations
- A voluntary or mandatory fee that a college, university, or similar institution imposes on all of its students for free or discounted transit service
- Undistributed cash surpluses, replacement or depreciation cash funds, reserves available in cash, or new capital transferred from the organization’s fund reserve to the transit program
- Transfers from the organization’s fund reserve (rainy day fund), depreciation fund, or other surplus that is moved to the transit account to meet federal grant matching requirements

The Award Management Requirements circular also refers recipients to the FTA circular specific to the particular grant (e.g., Section 5311 and Section 5310).

FTA circulars for the Section 5311 program (FTA Circular 9040.1G) and Section 5310 program (FTA Circular 9070.1G) further define several allowable sources of cash match, including (but not limited to):

- State government appropriations and/or grants
- Local government appropriations
- Dedicated tax revenues

- Private donations
- Grants from charitable foundations or agencies
- Other federal grant programs that have explicit statutory authority that permits the funds to be used as match to other federal awards

Federal Grant Programs Other than U.S. DOT as Local Match

FTA permits transit agencies to use funds appropriated or otherwise made available by federal programs other than the U.S. DOT as local match. However, the federal funds must be eligible to be used for transportation according to the regulations and laws of the federal program that provided the funds. FTA circulars provide guidance for use of federal non-U.S. DOT agency funds as local match:

- Section 5311—FTA Circular 9040.1G states that local match for Section 5311 recipients “may be derived from amounts appropriated or otherwise made available to a department or agency of the government (other than DOT) that are eligible to be expended for transportation.”
- Section 5310—FTA Circular 9070.1G states that local match “may be derived from federal programs that are eligible to be expended for transportation, other than DOT programs, or from DOT’s Federal Lands Highway program.”

Many federal agencies permit funds to be used for transportation. For example, the U.S. Department of Health and Human Services (DHHS) administers several grant programs whose funds can be used for transportation, including but not limited to:

- Medicaid (the largest of DHHS programs)
- Temporary Assistance for Needy Families (TANF)
- Head Start
- Community Services Block Grant Programs

An additional example is the U.S. Department of Veterans Affairs, which provides grants for transportation to and from Veterans Affairs medical facilities in highly rural areas (called Highly Rural Transportation Grants) and also provides funding for veterans’ transportation services using a network of transportation options, including transit agencies.

One important rule to remember is that U.S. DOT funds cannot be used to match another U.S. DOT program.

Thus, an entity cannot use Section 5310 or other FTA funds as match for the Section 5311 program (and vice-versa). This is true even if the funds are made available to the rural transit provider through a service agreement with a state or local social service agency or private social service organization. In this case, the rule that FTA funds may not be used as match because they are derived from a U.S. DOT program takes precedence.

There is one exception to this U.S. DOT rule. Federal Lands Highway Program funds authorized at 23 U.S.C. 204 can be used as local match to Section 5311 or Section 5310 funds and other FTA programs.³

The applicant is responsible for doing the appropriate research when proposing to use other federal grant funds as cash match to an FTA grant. The entity must be able to demonstrate to FTA or the state that the proposed program has specific statutory language that clearly stipulates that program funds can be used to match other federal awards.

Service Agreements as Local Match

There is one final category of cash-based matching funds—revenues derived from a service agreement with a state or local social service agency or a private social service organization. As noted in Chapter 5, these funds can be used as local match, even if the funding source used by the state or local social service agency (or private social service agency) is another federal grant program.⁴

³ Formula Grants for Rural Areas: Program Guidance and Application Instructions, FTA Circular 9040.1G, Chapter III, § 4h and FTA Circular 9070.1G, Chapter III, § 16a

⁴ 49 U.S.C. § 5311(g)(3)(C) and 49 U.S.C. § 5310(d)(3)(A).

From an accounting standpoint, such payments made directly to the transportation provider by human service agencies would be considered program income and may be used to reduce the net operating cost of the service or may be used as local match on the existing grant.⁵

While a state may not prohibit a subrecipient from using income from human service agency contracts as a source of local match, the state may elect to regard the degree to which a subrecipient demonstrates local financial commitment to the transit project from other sources of local funds as a rating factor in its discretionary allocation decisions.

The manner in which a subrecipient applies income from human service agencies to a project affects the calculation of net operating expenses and thus the amount of Section 5311 operating assistance the project is eligible to receive.

Which Treatment of Contract Revenues Is Best for the Transit Organization?

There is no correct answer to this question; the best treatment of contract revenues may vary depending upon the local situation. In one scenario listed below, the organization treats contract revenue as fares, meaning the overall net cost is reduced, so both the federal and local share are also reduced.

In the second scenario, contract revenues are used as local match, meaning the overall cost of the operating project is increased and thus both the federal and local share are higher.

Consider the following example where a Section 5311 project expends \$850,000 during the fiscal year. The system collects \$82,000 in farebox and related revenues and \$165,000 in contract revenues.

Different Treatment of Contract Revenues – Two Scenarios

As shown in Exhibit 6.1, the net cost of service in Scenario 1 is considerably lower than in Scenario 2; however, the amount of local match required from non-federal sources is lower in Scenario 2. Each organization should evaluate the option most beneficial to their organization.

Scenario 1 – Transit Provider Counts Revenues Derived from Contract Service Provision as Fare

In this scenario, the project counts revenues derived from the provision of human service agency transportation under contract as farebox revenue. The total amount of local cash necessary to meet the matching provisions of the Section 5311 program is less than the second scenario.

Scenario 2 – Transit Provider Counts Revenues Derived from Contract Service Provision as Local Match

In this scenario, the project counts revenues derived from the provision of human service agency transportation under contract as local match. This method maximizes the amount of federal Section 5311 program funds the project may be deemed eligible to receive from the state DOT (a maximum of 50 percent of the net cost of service). The local share (match) is \$384,000, or 27 percent higher than the first scenario; however, most of the match can be derived from contracts, leaving only \$219,000 to be funded through other local (non-federal) sources (compared to \$301,500 in Scenario 1).

⁵ FTA Circular 9040.1G Page III-11 and FTA Circular 5010.1E Page VI-13.

Exhibit 6.1. Comparative Treatment of Revenues Earned through Provisions of Service under Contract

Category	Scenario 1: Contract Revenues Counted as Fares	Scenario 2: Contract Revenues Counted as Local Match
Total Operating Expense	\$850,000	\$850,000
Total Operating Revenues		
Farebox and Related Revenues		
Fares	82,000	82,000
Contracts	165,000	
Organization Paid Fares		
Net Cost of Service	\$603,000	\$768,000
Federal Share of Operations	301,500	384,000
Local Share of Operations		
Contract Revenue		165,000
Non-Federal/Local/State Revenue	301,500	219,000

There is no official FTA list of other program funds that can be used as match under this provision. Historically, FTA has cited Government Accountability Office (GAO) reports that identify Federal programs that permit program funds to be expended on client or public transportation. In a 2003 report, GAO identified 62 federal programs that provided funds that could be used to pay for transportation services for transportation-disadvantaged populations.⁶ In 2012, GAO revisited this subject and identified 80 such programs in that year’s report to Congress.⁷

Under SAFETEA-LU, the primary focus was use of human service funds as a local match for transit projects because, as stated in the U.S. House of Representatives report, the match leveraged the federal investment and increased “coordination among federal agencies that provide transportation services” [H.R. Rep. 109-203, Jul. 28, 2005].

Under subsequent federal transportation acts (i.e., MAP-21, FAST Act), community living and environmental and economic sustainability connections to transportation received increased attention, so other federal agency funds were added to the mix as potential local match, in addition to human services funding. U.S. Department of Health and Human Services, U.S. Department of Labor, and U.S. Department of Housing and Urban

Development are some agencies whose funds have been used as local match. For example, the Administration for Community Living (ACL) is a Health and Human Services agency that has Older Americans Act funds eligible as match and has prepared guidance on how to use ACL with FTA programs.

FTA guidance on federal and local match requirements is found in the FTA Circulars 9040.1G (Section 5311) and 9070.1G (Section 5310). A federal transit grant applicant should refer to Section III in each circular to determine the match requirements and eligible local sources for the FTA funding programs because requirements for local match differ from program to program. As an example, the Section 5310 Circular 9070.1G, Section III-16, states:

In addition, the local share may be derived from federal programs that are eligible to be expended for transportation, other than DOT programs, or from DOT’s Federal Lands Highway program. Examples of types of programs that are potential sources of local match include: employment, training, aging, medical, community services, and rehabilitation services.

Who decides whether federal funds can be used as match for FTA programs? The answer is found in the Local Matching Funds Frequently Asked Questions on the FTA website:

⁶ U.S. General Accounting Office. *Transportation-Disadvantaged Populations, Some Coordination Efforts among Programs Providing Transportation Services, but Obstacles Persist*, GAO-03-697, June 2003.

⁷ U.S. General Accountability Office. *Transportation-Disadvantaged Populations, Federal Coordination Efforts Could Be Further Strengthened*, GAO-12-647, June 2012.

FTA leaves the determination of whether another agency's funding may be used for local match for FTA programs to that agency. Under the laws and regulations governing that funding, however, that funding must be eligible for use in public transportation projects.

FTA grant recipients and subrecipients should communicate with the applicable FTA Regional Office to determine if a particular federal-to-federal grant match is appropriate and allowable. Just because another agency's funds can be used as match does not mean that agency will approve such an arrangement. For example, it is up to the U.S. Department of Labor (DOL) to determine whether DOL funds may be used for transit projects, and which DOL funds may be eligible for use as match on transit projects.

Recommended Best Practice

In negotiating contracts with a state or local social service agencies, the transit provider should request the purchasing entity to document the source of funds that will be used to pay for the service. If federal funds are used, the transportation provider should ensure that the program is contained in the previously cited GAO report (GAO-03-697 and GAO-12-647 on the coordination of transportation services) to ensure that the program permits use of its funds for transportation.

As a best practice, should a rural transit agency or a specialized transportation provider face questions on the use of contract revenues as match, a three-step strategy should be followed (displayed in Exhibit 6.2):

1. Ask the right question. Rather than ask the purchasing agency if their grant funds can be used as match, ask:

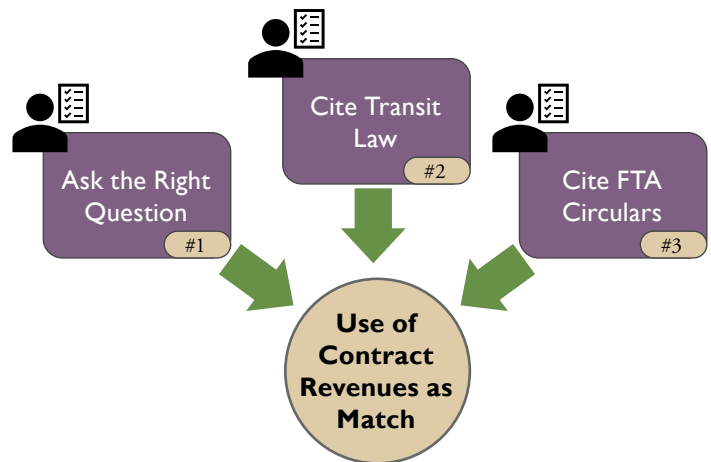
“Does your funding source’s enabling legislation contain any prohibition that expressly precludes use of those funds from being used as match?”

2. Document 49 U.S.C. § 5311(g)(3)(C). Prepare a standard narrative and/or contract clause citing this statutory provision in transit authorizing legislation that permits social service agency funds to be used as match.

3. Cite FTA Circulars. FTA circulars that provide guidance for Section 5311 and Section 5310 grant recipients specifically mention “income from contracts to provide human services transportation” as valid sources of local match revenue. Appendix 6C to this chapter provides excerpted language from the local match sections of two FTA circulars. The excerpts describe the eligibility of revenue from contracted services to be used as local match for Section 5311 and Section 5310.

If these three actions prove unsuccessful, the transit provider should contact the state DOT for additional assistance.

Exhibit 6.2. Actions for Using Contract Revenues as Match



In-Kind Match

The other type of local match is in-kind contributions and donations. This type of match can include:

- Unrecovered indirect costs (only with prior approval)
- Contributions by the NFE of services and/or property (such as office space)
- Volunteer services provided by third-parties, such as:
 - Professional and technical personnel
 - Consultants
 - Other skilled and unskilled labor

In any situation where contributions and donations are proposed to be used as local match, the service, good, or property must be an **integral and necessary** part of transit service delivery. Otherwise, the contribution cannot be used as local match.

Contributions by Third Parties

When a third-party organization furnishes the services of an employee, these services must be valued at the employee's regular rate of pay plus:

- An amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable
- Indirect costs at either:
 - The third-party organization's approved Federally negotiated indirect cost rate.
 - A rate approved by a pass-through entity.

These provisions apply provided the donated services employ the same skill(s) for which the employee is normally paid.

Where donated services are treated as indirect costs, indirect cost rates will separate the value of the donated services so that reimbursement for the donated services will not be made.

Donated property from third-parties may include:

- Equipment
- Office supplies
- Laboratory supplies
- Workshop and classroom supplies

The assessed value of donated property included in the cost sharing or matching share must not exceed the fair market value of the property at the time of the donation.

Valuation

Assigning value to contributions and donations is a key element in terms of claiming in-kind expenses as match.

Due to the complexity of this topic, and the various approaches that must be taken depending on the type of contribution, this subject is addressed in more detail in Chapter 7 of this manual.

Summary

Local match can be provided as both cash and in-kind contributions. However, local match must be verifiable from accounting records. To demonstrate this, various local cash and in-kind examples are shown in Exhibit 6.3, along with corresponding account entries if the organization followed the Uniform System of Accounts (USOA). While most rural transit agencies will not use this chart of accounts, the NFE should establish well-defined revenue accounts for all revenues used as local match to FTA grants. Establishing dedicated revenue categories for each source of cash match is considered a best practice, enabling both federal awarding agencies and auditors the ability to readily identify the organization's fulfillment of grant match requirements.

Federal Standards on Cost Sharing or Matching

Like eligible costs, the Super Circular outlines basic standards for federal grants that require local match (see 2 CFR § 200.306). These standards apply to match provided in cash, through third party in-kind contributions, or through use of program income earned under a prior grant. Moreover, a proposed local match must be accepted as part of the NFE's cost sharing when the contributions meet **all of** the following criteria:⁸

1. Are verifiable from the NFE's records;
2. Are not included as contributions for any other federal award;
3. Are necessary and reasonable for the accomplishment of project or program objectives;
4. Are allowable under 2 CFR Subpart E—Cost Principles;
5. Are not paid by the federal government under another federal award, except where the federal statute authorizing a program specifically provides that federal

⁸ 2 CFR §200.306.

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 (2 CFR § 200), as applicable.

Allotment Requirements

In order to better understand what these requirements mean, further elaboration drawn from FTA Circulars is used to explain the obligations imposed on FTA grantees.

Standard 1: Verifiable from Accounting Records

Establishing separate revenue accounts for the local match of each award, within each program, fund, or department within the accounting system, is the primary method for an organization to demonstrate adherence to this requirement (Exhibit 6.3 provides examples).

Standard 2: Not Included as Match for Any Other Federal Award

This requirement means that the same local dollar, once committed to match a transit grant, cannot be used to match any other federal award.

Standard 3: Necessary and Reasonable

These criteria primarily relate to the use of in-kind contribution, not cash match.

Reasonable means that a cost, in its nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

A cost is **necessary** if the expenditure is required for the proper and efficient performance and administration of a public transportation project.

The definitions of necessary and reasonable are discussed in more detail in Chapter 5.

Standard 4: Allowable Under Subpart E—Cost Principles

This criterion simply states that any cost or contribution used as local match must meet the same allowability principles as any other expense charged to the grant. Cost allowability is discussed in Chapter 5.

Standard 5: Not Paid by the Federal Government Under Another Federal Award

This provision stipulates that federal funds cannot be used to match federal funds, unless there is a specific element of the authorizing statute program that specifically provides that federal funds made available for such programs can be applied to matching or cost sharing requirements of other federal programs. As noted previously, it is the responsibility of the applicant agency to ensure the funds proposed have such a statutory provision.

Standard 6: Provided for in the Approved Budget When Required by the Federal Awarding Agency

This provision permits the federal awarding agency to determine whether or not an applicant must clearly identify the sources and amounts of local matching share in the application and subsequently, in the approved project budget. FTA requires that the local match be identified in the project budget.

Standard 7: Conform to Any Other Applicable Provisions in the Super Circular (2 CFR § 200)

This provision simply means that any donation or contribution must meet all other elements of the Super Circular, as applicable.

Exhibit 6.3. Establishing a Verifiable Accounting Record of Local Match from Cash and In-Kind Sources

Category	Type of Match	USOA Account Title (USOA Account Number)	Description
Cash	State government appropriations and/or grants	State Government Funds (4400)	General revenues of state government appropriated for transit use.
Cash	Dedicated state transit fund	State Transit Fund (4420)	State dedicated fund separate from the General Fund. Any state usually has several dedicated sources of funding, often including funding sources such as fuel taxes, vehicle registration fees, or bonds backed by such revenue streams. A Transportation Fund may fund both transit agencies and other transportation needs such as the highway department.
Cash	Local government appropriation	Local Government General Revenue (4310)	The category is comprised of local government appropriations, typically from the General Fund.
Cash	Local dedicated funds	Dedicated Local Revenue (4320)	While not typical for most rural transit agencies, some transit agencies have a taxing source dedicated to public transportation. This category includes dedicated funds that may be sourced to income taxes, sales taxes, property taxes, fuel taxes, and similar sources.
Cash	Advertising revenues	Auxiliary Transportation Revenue – Advertising (4141)	Revenues earned from activities related to the provision of transit service, but are not payment for transit service, such as advertising and concessions.
Cash	Other local funds	Other Local Funds (4390)	Revenues transferred from the organization's fund reserve or balance to meet the required matching share.
Cash	Sponsored service	Revenues Accrued through a Purchased Transportation Agreement (4160)	Revenue from provision of service to a state or social service organization.
Cash	Program Income	Other Agency Revenues (4150)	Revenues earned from activities not associated with the provision of the transit agency's transit service and could include sale of maintenance services to third parties, rents collected from tenants of transit owned real property, etc.
In-Kind	Contributions/donations	Other Transportation Revenues (4150)	This category includes funds from donations and grants from private foundations and other charitable sources, such as the United Way.

Source: Recommendations primarily derived from the Uniform System of Accounts, June 2016.

FTA Limitations on Transfers of Funds

FTA Funds

Authorizing legislation permits transfers of some funds from one program to another. Transferred funds are subject to any limitations applicable to the original apportionment of the funds, not of the receiving program.

For example, transfer of part of a state's Section 5311 apportionment to small Urbanized Areas (UZAs), or those areas over 50,000 but under 200,000 in population, will impose the following restrictions:

- The transfer will not reduce the amount of Section 5311 funds the state may use to administer its Section 5311 program (i.e., 10 percent of the Section 5311 apportionment).
- The state may not use the sliding scale match for transferred Section 5311 funds obligated in a Section 5307 grant.
- The period of availability of the transferred funds is that of the Section 5311 apportionment (three years).

Transfers of FHWA Flexible Funds

Transit and highway authorizing legislation also permits a state to transfer Federal Highway Administration (FHWA) Surface Transportation Program (STP) funds, Congestion Mitigation and Air Quality (CMAQ) funds, and certain other flexible funds from FHWA to FTA to use for transit projects.

With limited exceptions, FTA treats STP, CMAQ, or other flexible funds transferred to the Section 5311 program as Section 5311 funds, subject to all FTA requirements for this program.

Special Match Provisions Under the Intercity Bus Program

A state DOT shall expend at least 15 percent of the Section 5311 amount made available in each fiscal year to carry out a program to develop and support intercity bus transportation. Eligible activities under the program, also known as Section 5311(f) include planning and marketing for intercity bus transportation; capital grants

for intercity bus facilities; joint-use facilities; operating grants through purchase-of-service agreements, user-side subsidies, and demonstration projects; and coordinating rural connections between small public transportation operations and intercity bus carriers.

The guidance in 49 U.S.C. § 5311(g)(3)(F) provides that in the case of an intercity bus project that includes both feeder service and an unsubsidized segment of intercity bus service to which the feeder service connects, the local match “may be derived from the costs of a private operator for the unsubsidized segment of intercity bus service as an in-kind match for the operating costs of connecting rural intercity bus feeder service funded under 5311(f).”

To use the net project cost provided by a private operator as in-kind match, the FTA-assisted project must be defined as including both the feeder service and an unsubsidized segment of the intercity bus network to which it connects.

The unsubsidized private operator costs can be used as the local match only “if the private operator agrees in writing to the use of the costs of the private operator for the unsubsidized segment of intercity bus service as an in-kind match.”

In order to be eligible to be used as in-kind match, the feeder service must meet the program criteria, including making meaningful connections to the national network of intercity bus services.

The FAST Act made some changes to this unique matching provision; these changes now allow the cost of the unsubsidized portion of privately provided intercity bus service that connects feeder service, including all operating and capital costs of such service (whether or not offset by revenue from the service), to be used as in-kind local match for the intercity bus projects.

Appendix 6D provides an example of how this provision works.

Chapter Summary

Many federal grant awards, including most FTA programs, require a local matching share of total project costs. Match can be provided either in cash or through contributions and donations. Regardless of the source of the match, there are specific rules governing the allowability of local match.

Cash match typically consists of state government appropriations or grants, local government appropriations, or dedicated tax revenues. Other sources of local cash match can include voluntary or mandatory fees that a college, university, or similar institution imposes on all its students for free or discounted transit service or a contribution from the organizations' cash reserves. Fare revenues are never eligible to be used as local match.

In limited circumstances, other federal funds, if authorized by Congress, can also be used as federal match. However, U.S. DOT funds cannot be used as match to other U.S. DOT grants.

A unique source for local match for many FTA grants is revenues derived from the provisions of service under contract to a state or local social service agency or a private social service organization. At the option of the transit organization, these funds may be used either to reduce the net project cost (treated as revenue) or to provide local match.

When the transit organization proposes to use contributions or donations as local match, the organization must understand federal requirements that apply to this type of match.

Generally, most items in this category will consist of contributions of services and/or property by the NFE or volunteer services provided by third parties. Documentation for contributions and donations must be the same as if the agency were directly incurring the expense. Equally important, the NFE must follow federal cost principles in the valuation of donations.

There are seven (7) basic allowability standards for cost sharing and matching; proposed match must meet all standards to be allowable.

There are also special matching provisions for the Section 5311(f) Intercity Bus Program. Under this program, the local match for a feeder service may be derived from the costs of a private operator for the unsubsidized segment of

intercity bus service. This is permitted only if the private operator agrees to this in writing. The feeder service must also meet program criteria, including that it makes a meaningful connection to the intercity bus network.

CHAPTER APPENDICES

Appendix 6A: Sliding Scale Matching: Public Lands Criterion

Higher federal share rates for capital costs are available to 14 states described in 23 U.S.C. 120(b). The higher federal shares under 23 U.S.C. 120(b)(1), shown in the table below, are based on the ratio of designated public lands area to the total area of these 14 states. For FTA capital grants, the federal share increases from 80 percent in proportion to the share of public lands in the state. For FTA operating grants in these same states, the federal share increases from 50 percent, with the sliding scale rate for operating being 62.5 percent (or 5/8) of the rate for capital grants.

The table shows the states that qualify to use this sliding scale.

Sliding Scale Based on Public Lands

State	Sliding Scale Rate for Transit Capital Grants	Sliding Scale Rate for Transit Operating Grants
Alaska	90.97%	56.86%
Arizona	90.49%	56.55%
California	83.57%	52.23%
Colorado	82.79%	51.75%
Hawaii	81.30%	50.81%
Idaho	84.97%	53.11%
Montana	82.75%	51.72%
Nevada	94.89%	59.31%
New Mexico	85.44%	53.40%
Oregon	84.63%	52.90%
South Dakota	81.95%	51.22%
Utah	89.52%	55.95%
Washington	81.42%	50.89%
Wyoming	86.77%	54.23%

Source: FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 4b(4).

Appendix 6B: Sliding Scale Matching: Tribal Lands, Land in the Public Domain, National Forest, and National Parks/Monuments Criterion

Additional higher federal share rates are based on the ratio of the area of non-taxable Indian land, public domain lands (reserved and unreserved), national forest, and national parks and monuments to the total area of each state. These rates are available only for states that already have in place signed agreements with the Federal Highway Administration (FHWA) under 23 U.S.C. 120(b)(2). For FTA Section 5311 projects, states with such an agreement with FHWA are eligible for the higher federal match permitted in Section 120(b)(2).

Sliding Scale Based on Tribal Lands, Land in the Public Domain, National Forest, and National Parks/Monuments

State	Sliding Scale Rate for Transit Capital Grants	Sliding Scale Rate for Transit Operating Grants	State	Sliding Scale Rate for Transit Capital Grants	Sliding Scale Rate for Transit Operating Grants
Alabama	80.40%	50.25%	Nebraska	80.18%	50.11%
Alaska	94.95%	59.34%	Nevada	95.00%	59.39%
Arizona	94.3%	58.94%	New Hampshire	82.45%	51.53%
Arkansas	81.55%	50.97%	New Jersey	80.14%	50.09%
California	88.53%	55.33%	New Mexico	87.92%	54.95%
Colorado	87.31%	54.57%	New York	80.10%	50.06%
Connecticut	80.04%	50.03%	North Carolina	80.98%	50.61%
Delaware	-	-	North Dakota	80.93%	50.58%
Florida	81.93%	51.21%	Ohio	80.16%	50.10%
Georgia	80.48%	50.30%	Oklahoma	80.58%	50.36%
Hawaii	82.48%	51.55%	Oregon	89.73%	56.08%
Idaho	92.66%	57.91%	Pennsylvania	80.38%	50.24%
Illinois	80.15%	50.09%	Rhode Island	80.05%	50.03%
Indiana	80.17%	50.11%	South Carolina	80.63%	50.39%
Iowa	80.00%	50.00%	South Dakota	82.82%	51.76%
Kansas	80.05%	50.03%	Tennessee	80.66%	50.41%
Kentucky	80.58%	50.36%	Texas	80.22%	50.14%
Louisiana	80.41%	50.26%	Utah	93.23%	58.27%
Maine	80.28%	50.18%	Vermont	81.08%	50.68%
Maryland	80.11%	50.07%	Virginia	81.50%	50.94%
Massachusetts	80.12%	50.08%	Washington	86.50%	54.06%
Michigan	81.42%	51.14%	West Virginia	81.36%	50.85%
Minnesota	81.42%	50.89%	Wisconsin	81.11%	50.69%
Mississippi	80.83%	50.52%	Wyoming	90.49%	56.56%
Missouri	80.69%	50.43%	District of Columbia	83.15%	51.97%
Montana	86.58%	54.11%	Puerto Rico	80.25%	50.16%

Source: FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 4b(4).

Appendix 6C: Excerpts from FTA Circulars Regarding Local Match

FTA circulars provide guidance concerning what sources of revenue can be used as local match under the various FTA grant programs. The text excerpts below are taken directly from FTA circulars (some text from the circulars is omitted if it does not directly relate to contracts to provide human service transportation).

Excerpts from FTA Circular 9040.1G: Section 5311 Formula Grants for Rural Areas

Payments made directly to the transportation provider by human service agencies...would be considered “program income” and may be used to reduce the net operating cost of the service or may be used as local match on the existing grant (Chapter III.3.c).

Income from contracts to provide human service transportation may be used either to reduce the net project cost (treated as revenue) or to provide local match for Section 5311 operating assistance (treated as program income). In either case, the cost of providing the contract service is included in the total project cost. Unlike other forms of program income, income from contracts to provide human service transportation may be used as the local match for the grant in which the income is generated (Chapter III.4.c).

[Local match] may be provided from...a service agreement with a state or local social service agency or a private social service organization...[and] may be derived from amounts appropriated or otherwise made available to a department or agency of the government (other than [US]DOT) that are eligible to be expended for transportation (Chapter III.4.e).

Recipients may use funds from other federal agencies (non-[US]DOT) for the entire local match if the other agency makes the funds available to the recipient for the purposes of the project.... A state cannot use Section 5310 or other FTA funds as match for Section 5311 program funds (Chapter III.4.h).

Excerpts from FTA Circular 9070.1G: Section 5310 Enhanced Mobility for Seniors and Individuals with Disabilities

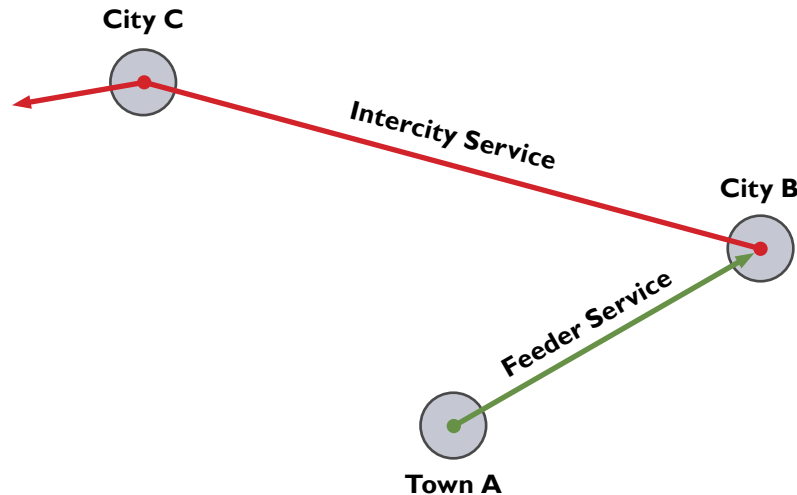
The local share may be provided from...a service agreement with a state or local service agency or private social service organization....

Income from contracts to provide human service transportation may be used either to reduce the net project cost (treated as revenue) or to provide local match for Section 5310 operating assistance. In either case, the cost of providing the contract service is included in the total project cost. No FTA program funds can be used as a source of local match for other FTA programs, even when used to contract for service. All sources of local match must be identified and described in the grant application at the time of grant award.

In addition, the local share may be derived from federal programs that are eligible to be expended for transportation, other than [US]DOT programs... Examples of types of programs that are potential sources of local match include: employment, training, aging, medical, community services, and rehabilitation services (Chapter III.16.a).

Appendix 6D: Intercity Bus (Section 5311(f)) Match Example

Consider the following scenario, when a rural public transit provider proposes to operate new feeder service to connect to an existing (assumed profitable) intercity bus service operating between City B and City C. The existing intercity service between City B and City C operates one (1) round trip per day, 365 days per year.



The cost to operate the connecting miles determines the amount of the available match:

- Mileage between City B and City C (unsubsidized service operated by a private for-profit intercity bus company) is about 150 miles each way.
- The cost of each mile is approximately \$4.50 per mile, so the value of the connecting miles is $\$4.50 \times 150$ (distance) $\times 2$ (trips per day) $\times 365$ (days of operation) = \$492,750 in annual costs.
- The proposed Section 5311 feeder service is projected to cost \$300,000, with \$50,000 in fare collections.

Project Component	Cost
Feeder Service	
Operating Expense for Rural Town A to City B	\$300,000
Less Anticipated Fare Revenue	\$50,000
Net Project Cost (before in-kind match)	\$250,000
Cost of Unsubsidized Portion of Service (City B to City C) to be Used as Match*	\$250,000
Total Net Project Costs (including in-kind match)	\$500,000
Federal Share of Total Net Project Cost	\$250,000
Cost of Connecting Service Between City B and City C (unsubsidized)	
Unsubsidized Portion of Service (City B/City C)	\$492,750
Portion of Unsubsidized Service to be Used as Match	\$250,000

* Must be added to feeder system project costs.

CHAPTER 6 QUIZ

1. Matching funds for an FTA grant must be identified in the project application.

- True False

2. FTA permits its grant funds to be used as match to other federal programs.

- True False

3. There are no accounting requirements associated with the use of donated funds in the Section 5311 program.

- True False

4. Non-farebox revenues, such as income earned from the sale of advertising on system vehicles, may be used as local match to an FTA grant.

- True False

5. If a local university imposes an assessment (involuntary) in student fees to support a free or discounted student transportation system, these revenues can be used as local match.

- True False

6. Section 5310 funds can be used to match Section 5311 funds if the transit system receives these revenues through a purchase of service agreement.

- True False

7. FTA permits treatment of revenues from purchase of service agreements funded with non-DOT funds as local match or farebox revenues, at the option of the transit provider.

- True False

8. Matching funds of cash or in-kind contributions are permitted under FTA grants.

- True False

9. Not all contributions may be used as local match; the contribution must be reasonable and necessary to support the FTA grant award.

- True False

10. Funds transferred from other FTA programs into the Section 5311 program may be used as local match.

- True False

11. Regardless of the sliding scale, an FTA-funded project that acquires a vehicle that meets the requirements stipulated in 49 CFR § 38 can be funded at 85 percent federal participation.

- True False

12. Any financial contribution made by a university or college must be treated as fares and deducted from total operating expenses to compute the net cost of service.

- True False

13. A state may require a Section 5311 project to count all revenues derived from the provision of service to a state or local human service agency as fare revenue.

- True False

14. In some cases, the percent of federal participation in a capital grant may be higher if the project is in a state that contains significant public lands.

- True False

Notes

ADDITIONAL RESOURCES

- 49 CFR 38 Americans with Disabilities Act (ADA) Accessibility Specifications for Transportation Vehicles. Available at e-CFR: <https://www.ecfr.gov/cgi-bin/text-idx?SID=59214a57abfe4741055e1023ca9ce718&mc=true&node=pt49.1.38&rgn=div5>.
- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National Aging and Disability Transportation Center (NADTC) Section 5307, 5310, and 5311: Using Non-DOT Federal Funds for Local Match. Available at <https://www.nadtc.org/news/blog/section-5307-5310-and-5311-using-non-dot-funds-for-local-match/>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- NCHRP Research Results Digest 353 Identification of Local Matching Fund Requirements for State-Administered Federal and Non-Federal Public Transportation Programs. Available at <http://www.trb.org/Main/Blurbs/165476.aspx>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc883535594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.
- Texas Department of Transportation A Study of Sources Used for Local Revenue for Transit. Available at <https://ftp.dot.state.tx.us/pub/txdot-info/ptn/matching-funds-resource-guide.pdf>.

Notes

CHAPTER 7: CONTRIBUTIONS AND DONATIONS

From “Five Things Never to Say in a Grant Application”

We need your funding to continue to operate...

- Diane H. Leonard, DH Leonard Consulting and Grant Writing Services

Cost Allowability Principles:

The value of services and property donated to the NFE may not be charged to the federal award either as a direct or indirect (F&A) cost. The value of donated services and property may be used to meet cost sharing or matching requirements.

- 2 CFR § 200.434(b)

Goals of this Chapter

Contributions and donations represent a viable option to meet the matching share of federal grant awards. The recipient and subrecipient of a federal grant must take special care to ensure that each contribution or donation to be used as local match be valued properly. Program income is income generated from grant supported activities. If used as local match, program income may not be used to reduce the non-federal share of the award from which it was earned but may be used as non-federal share for future awards.

This chapter is designed to:

- Define the types of donations and contributions that can be used as local match
- Specify the valuation methods an entity must employ in assigning a value to the donation or contribution
- Define what is and is not considered program income

Contributions, Donations, and Program Income as Match to Federal Grant Awards

In fiscally constrained times, many FTA grant recipients, particularly those in rural areas, face increasing difficulty in meeting the required matching share to their FTA grants. Many systems seek innovative means to find the necessary matching resources, including increasing reliance on contributions and donations to meet this requirement.

As seen in the last chapter, donations and contributions are allowable under federal awards. However, proper accounting treatment of contributions and donations can be challenging. These costs may be disallowed if the non-federal entity (NFE) does not account for such non-cash contributions correctly.

Basic Concepts Regarding Donations and Contributions

All federal grant recipients must be knowledgeable of two elements of the Super Circular that restate longstanding federal grants management principles.

1. The first principle concerns situations where an NFE gives a contribution or donation to another entity. The Super Circular states:¹

*Costs of contributions and donations, including cash, property, and services, **from** the Non-Federal Entity to other entities, are unallowable.*

Thus, any donations of cash, services, or goods by the transit agency to third parties is not an allowable expense under federal cost principles.

In some limited circumstances, and then only with the prior approval of the federal awarding agency, a donation of real property (buildings or land) may be allowable as local match (discussed later in this chapter).

2. The second principle is the fact that when a recipient of federal funds receives a contribution or donation from a third party, the value of such donations can never be

charged to the federal grant as a direct or indirect cost. The Super Circular states:²

The value of services and property donated to the Non-Federal Entity may not be charged to the Federal award either as a direct or indirect (F&A) cost. The value of donated services and property may be used to meet cost sharing or matching requirements.

In other words, a transit agency cannot charge any type of contribution, donation, or in-kind service to an FTA grant.

However, the value of donations and contributions, under specific circumstances, may be able to be used as local match.

This chapter discusses the provisions of the Super Circular and FTA Circular 5010.1E that pertain to donations and non-cash contributions as local match. However, the recipient for Section 5311 and Section 5310 funds (typically the state DOT) may have additional policies and procedures for allowability, valuation, and required concurrences.

A subrecipient of grant funds should always seek the advice of the recipient before budgeting donations and contributions as local match. Eligibility of items should be discussed with the state DOT in the grant application process.

Donations and Contributions Allowable as Local Match

The rules for being able to use donations and contributions as eligible local match will vary by the type of donation and the organizational status of the NFE claiming the donation as local match. The following types of contributions are permitted to be used as match:

- Donated services provided by volunteers
- Donated services provided by employees of another organization
- Donated goods and equipment provided by third parties

¹ 2 CFR § 200.434(a).

² 2 CFR § 200.434(b).

- Donated real property
- Donated office space

Not commonly used, but permissible under grants management guidance, is the use of unrecovered indirect costs as local match.

Donated Services by Volunteers

Allowability

Volunteer services provided by a third-party, including professional and technical personnel, consultants, and other skilled and unskilled labor, may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program.

A good rule of thumb to test compliance with the integral and necessary provisions is whether the transit agency would pay its own employees to perform the functions provided by the third party.

Another test that a transit agency could use would be to determine if the volunteered services fit within one of the four basic FTA function codes:

- Operations
- Vehicle Maintenance
- Facility Maintenance
- General Administration

Valuation

General. The NFE that receives the benefit of donated labor services may value the labor at prevailing wages for similar work as if the labor was performed by a paid employee. Take the example of a volunteer driver. This function is typically performed by paid employees; thus, this contribution passes the integral and necessary requirement. The transit agency computes the average hourly rate of all bus operators and uses this figure to value the services of the volunteer driver.

If there are no comparable functions carried out by paid personnel within the organization, then the valuation

must be based on wages paid for similar work in the labor market encompassing the service area of the transit project (e.g., the geographic service area of the project).³

In both cases—where a value can be derived from existing employees or from rates paid in the labor market—the transit agency may include paid fringe benefits that are reasonable and allowable under federal cost principles.

Example Valuation of Volunteer Driver Services

A transit agency primarily uses paid drivers, but will use some volunteer driver services when such services are available. During the most recent billing period, volunteer drivers committed 40.5 hours of labor. The agency computes the average hourly wage of its entire driver workforce to be \$11.27 per hour. The agency concludes that this rate represents an amount “consistent with those paid for similar work.” The transit agency would be able to use \$456.44 as the value of the donated services and use this amount as local match:

$$40.5 \text{ hours} \times \$11.27 \text{ (Rate Paid for Similar Work)} \\ = \$456.44$$

Source: 2 CFR §200.306(e)

Special Considerations for Nonprofits. The Super Circular imposes additional conditions on nonprofit organizations that relate to the organization’s indirect cost rate computations.

First, the value of service donated to the nonprofit organization used in the performance of a direct activity must be considered in the organization’s determination of the indirect cost rate. Accordingly, the value of the service donated should be allocated as a proportionate share of indirect costs if:

- The aggregate value of the volunteered services is material.
- The services are supported by a significant amount of indirect costs incurred by the nonprofit agency.

³. See 200 CFR § 200.306(e).

Exhibit 7.1. Donated Services by Volunteers

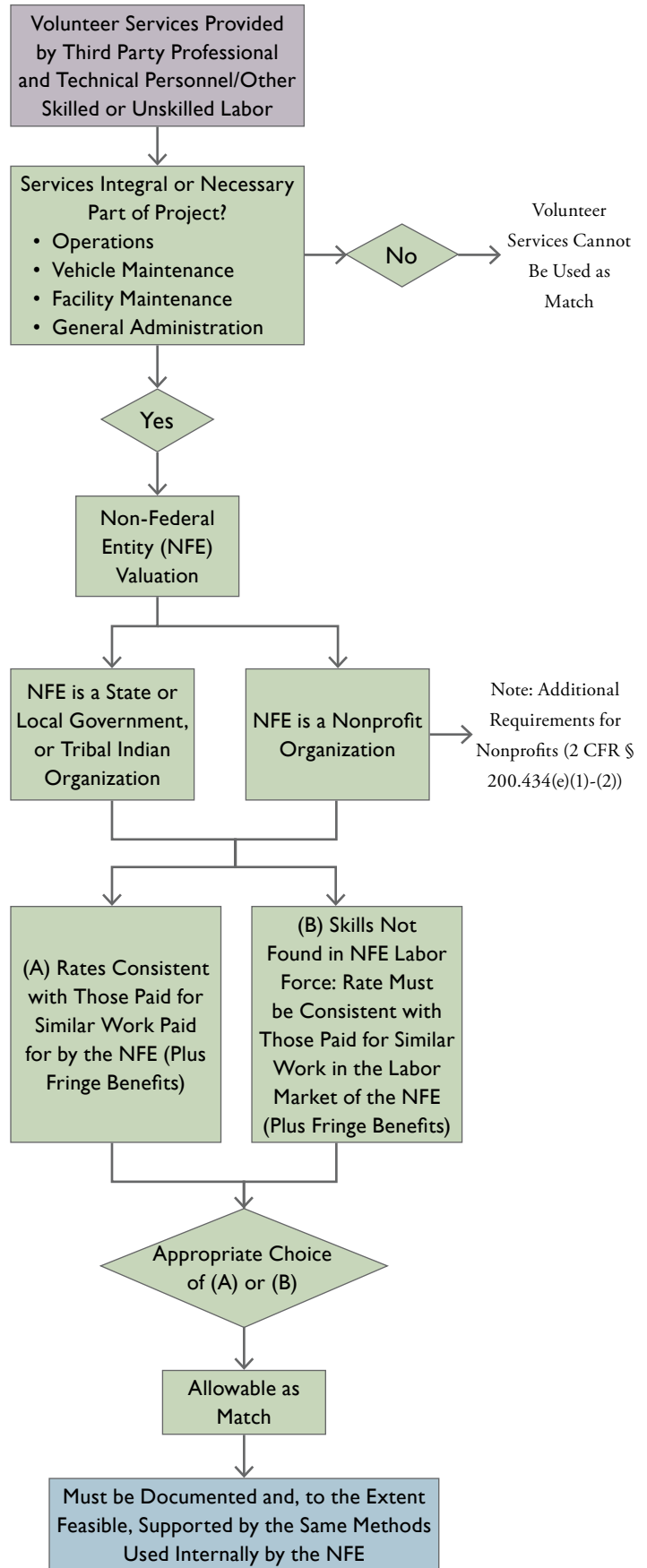
If the answers to either of these questions is yes, then the organization must consider the value of the volunteered services in the computation of the organization's indirect cost rate.

Only the NFE can determine whether the volunteer services are material and supported by a significant amount of indirect costs. This is a decision that should be made by the CFO with governing board approval.

A best practice is for the organization to clearly indicate decisions made in this regard in the required analysis that must be developed as part of the Indirect Cost Rate Proposal.

A schematic of the steps an NFE must follow to claim volunteer labor as local match (or in the case of a private nonprofit organization, indirect costs) is contained in Exhibit 7.1.

2 CFR § 200.306(e)



Donated Services Provided by Employees of Another Organization

Allowability

A similar situation to the NFE benefiting from the service provided by volunteers is one where the entity benefits from services provided by employees of another organization.

Examples of such donations may include:

- A Certified Public Accountant (CPA) firm donates the time of its bookkeepers or accountants to assist the transportation agency.
- An auto dealership donates maintenance labor in the repair of system vehicles.
- A law practice donates the time of its attorneys to provide legal advice to the transportation system.

The donated services of employees are allowable to be used as local match.⁴

Additionally, if the services are provided by employees of an entity that has an approved federally negotiated indirect cost rate, the indirect costs associated with this labor are similarly allowable.

Valuation

The valuation of the donated services of employees differs from that of volunteers.

When a third-party organization provides the services of an employee, these services must be valued at the employee's regular rate of pay plus an amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable.

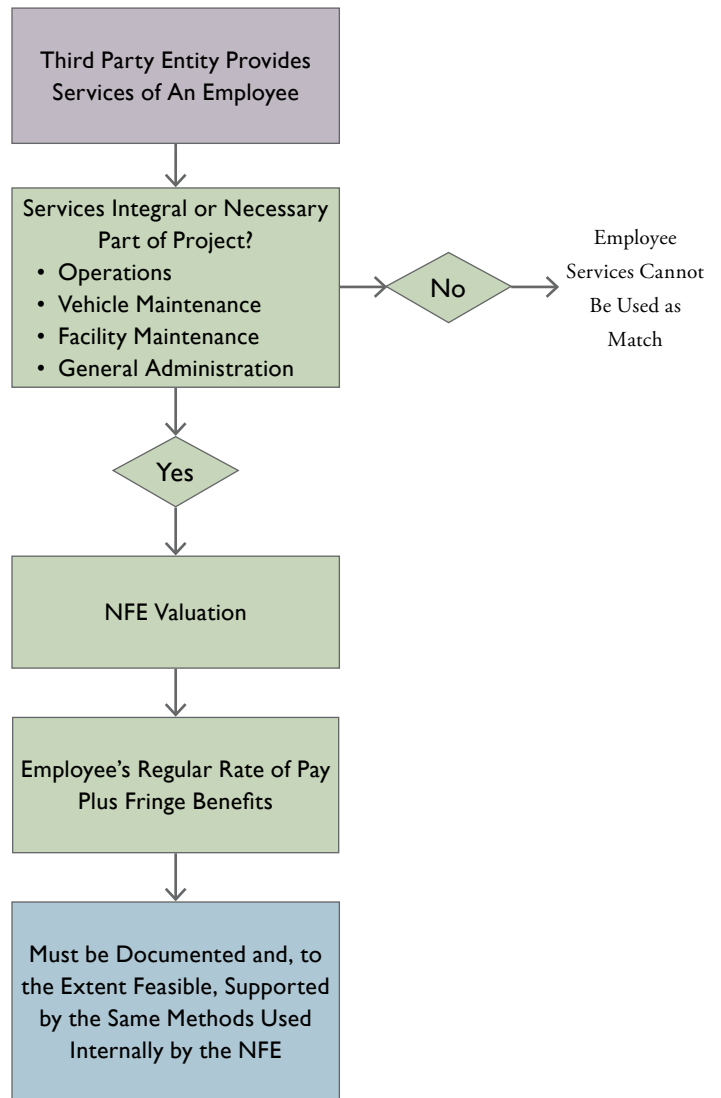
One caveat to this rule is that the services donated by the employee must be the same as those for which the employee is normally paid to perform.

If a CPA donates accounting time, then the allowable rate for use in valuation of those services would be the CPA's normal hourly rate, plus allowable fringe benefits. However, if the CPA's services are provided as a vehicle

driver, then the allowability of the donated labor would be limited to the amounts valued for driver, not CPA, labor (Exhibit 7.2).

Exhibit 7.2. Donated Services Provided by Employees of Another Organization

2 CFR § 200.306(f)



⁴ See 2 CFR § 200.306(f).

Donated Goods and Equipment Provided by Third Parties

Allowability

Supplies, goods, and equipment donated to an NFE may be used as local match.⁵

Valuation

When a third-party organization donates goods, supplies, and/or equipment that are necessary for the operation of a rural or specialized transit agency, the transit agency may use the Fair Market Value (FMV) of the donated item at the time of donation as local match.

The Super Circular does not define FMV; most entities will turn to the Internal Revenue Service, which defines FMV as:

The price for which the given property would sell on the open market. This price would be agreed upon between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts.

Under this definition, the burden is on the NFE to find comparable sales of similar equipment of comparable age. The entity donating the equipment may be able to provide some examples.

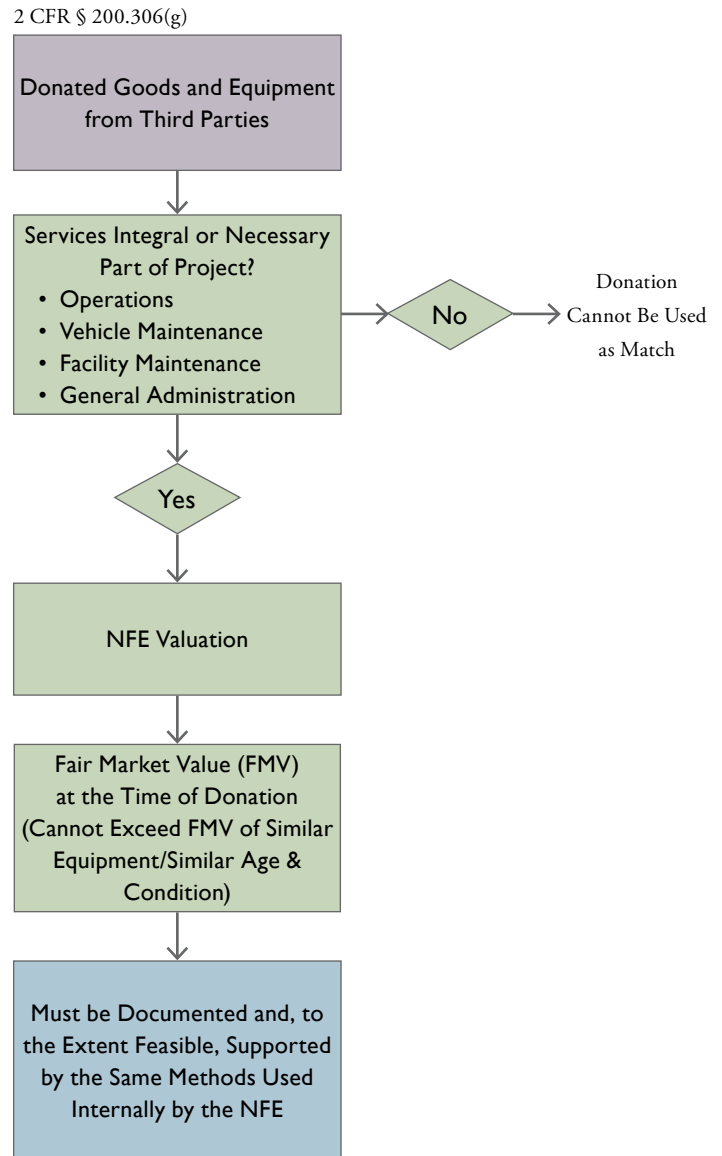
If the equipment is new, then the actual sales price would be used to establish the valuation. The transit agency may use statements provided by the donor to establish value.

For used equipment, sales data derived from comparable sales (same type and age) would represent the best way to establish the value of donated equipment. In the absence of actual sales data, the NFE could use two methods to establish the value of used equipment:

- A competent, independent appraisal – the transit agency would hire a qualified individual to provide an appraisal of the donated item.
- Using straight-line depreciation methods, establish the equipment's remaining useful life and apply the remaining depreciation to the value of the equipment.

In either case, the transit agency should consult the federal awarding agency regarding its valuation methods (Exhibit 7.3).

Exhibit 7.3. Donated Goods and Equipment



⁵ See 2 CFR § 200.306(g).

Donation of Real Property

Allowability

Real property is defined as land, including land improvements, structures, and appurtenances thereto, but excludes moveable machinery and equipment.⁶

The donation of real property (land) to a transit capital project is a common method that many transit agencies use to meet the large matching share typically required for a facility project.

FTA allows real property to be used as local match whether the property is owned by the NFE or is donated by a third party.

FTA has very specific requirements when an NFE proposes to use real property as the local matching share to a federal grant. The NFE must comply with the requirements in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Uniform Act or URA), as amended. The Uniform Act is implemented by regulation found at 49 CFR § 24.

If these conditions are met, the donated real property, with the prior approval of FTA, is permissible as local match.

Concurrence Requirements

FTA must concur in appraisals and review appraisals for all real property being proposed as local match to an FTA award.

A review appraiser's report is required on all appraisals receiving federal assistance. Federal assistance may be awarded before the appraisal is completed; however, the amount of the in-kind contribution cannot be determined and applied to the award until the appraisal has been approved by FTA.⁷

In some instances, FTA will make exceptions to the appraisal and review appraisal requirements. For example, if the property is valued at under \$10,000, FTA may waive the requirement. However, any recipient or subrecipient

should consult with either FTA and/or their state DOT (which, in turn, will discuss with FTA) prior to assuming any exceptions to real estate acquisition standards.

Valuation

The in-kind contribution allowance will be based on the current fair market value as independently appraised. Appraisals and review appraisals for property being donated, regardless of appraised value, must be submitted to the FTA regional office for concurrence. The value of the donated property may not exceed the fair market value of the property at the time of the donation.

Unlike appraisals conducted for other in-kind contributions, appraisals of real property can only be conducted by individuals certified or licensed with a State Appraisal Board. For recipients of funding under state-administered programs (such as Section 5311 or Section 5310), the state DOT may provide qualified appraisal services from an internal right-of-way acquisition unit.

If the donated property exceeds the acreage required for the approved project, credit will only be given for the value of the portion of the parcel that will be used or consumed by the project (Exhibit 7.4).

Donated Space and Facilities

Allowability

As noted in the previous section, FTA permits real property to be used as local match whether the property is owned by the NFE or is donated by a third party.

Valuation

The NFE must comply with § 200.306 of the Super Circular with respect to valuation. This requirement states that the value of donated space must not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality (Exhibit 7.5).

⁶ See 2 CFR § 200.85. An appurtenance is anything attached to a piece of land or building such that it becomes a part of that property and is passed on to a new owner when the property is sold. It may be something tangible like a garage, septic system, water tank, or something abstract such as an easement or right of way.

⁷ FTA Circular 5010.1E, Chapter IV, § 2a.

Exhibit 7.4. Donated Real Property

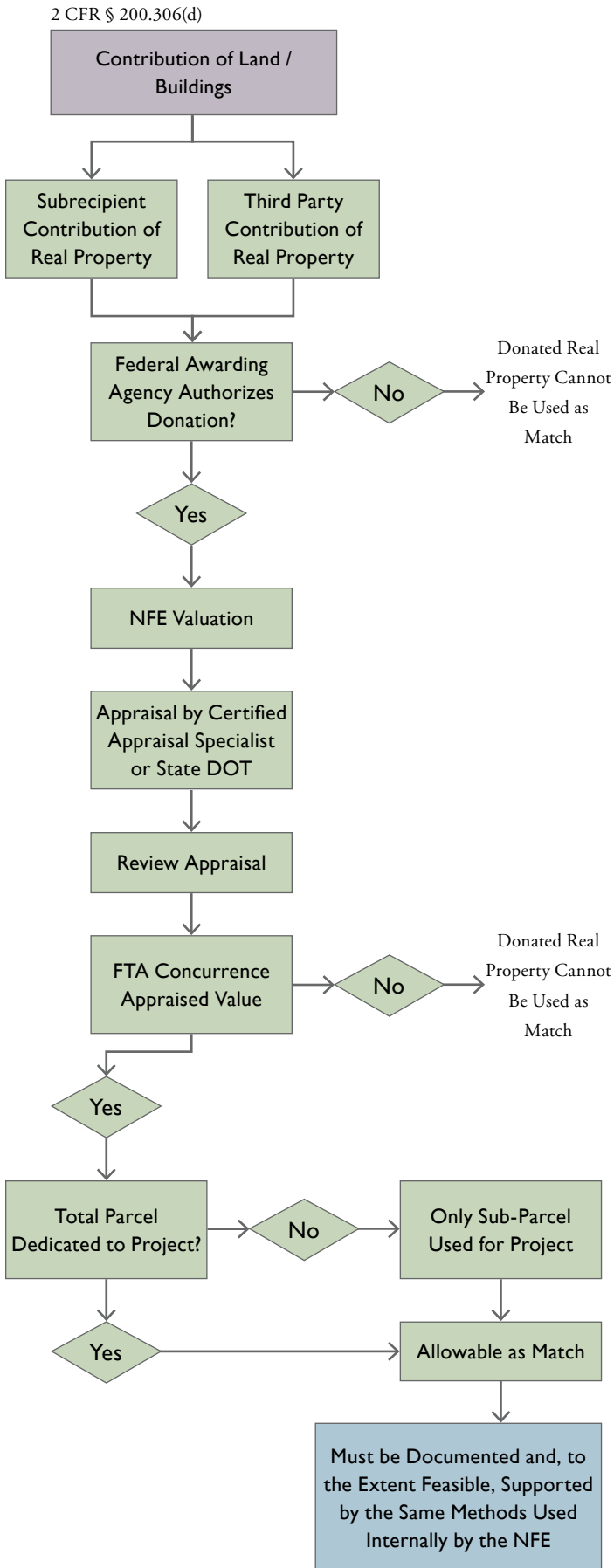
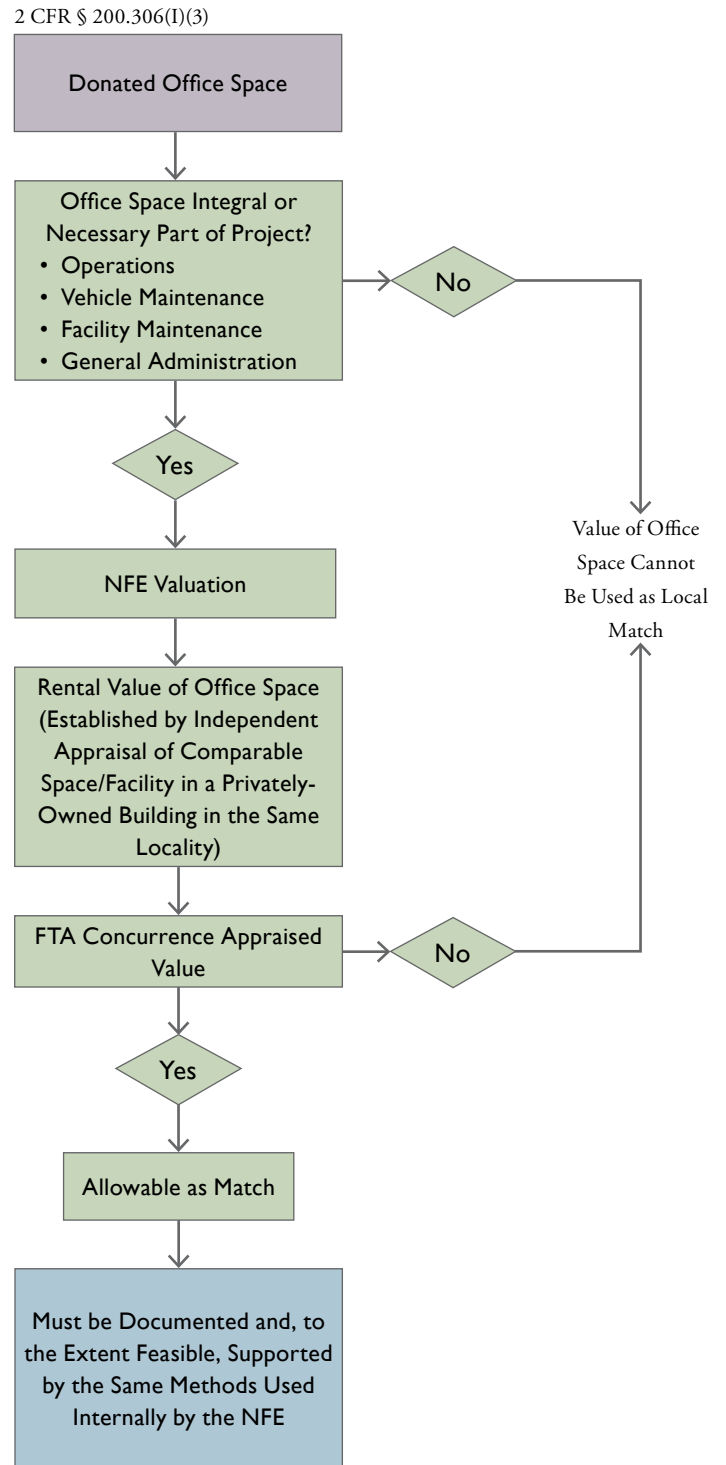


Exhibit 7.5. Donated Office Space



Unrecovered Indirect Costs

In some limited circumstances, it may be possible for an NFE to use unrecovered indirect (F&A) costs as local match.⁸ Unrecovered indirect cost means:

...the difference between the amount charged to the Federal award and the amount which could have been (charged) to the Federal award under the Non-Federal Entity's approved negotiated indirect cost rate.

This means that the NFE must have previously negotiated an indirect cost rate with a cognizant federal agency and can substantiate that the entity had not been fully reimbursed its allowable indirect costs.

While permitted under federal grants guidance (see 2 CFR § 200.306(c)), this is not a common practice. Typically, federal agencies use indirect cost rates that are fixed and not subject to adjustment, thus negating the value of this alternative. Additionally, the accounting burden to oversee this form of in-kind contribution is often viewed as greater than the value of the match itself.

Program Income

What Is Program Income

Program income is gross revenue generated directly or indirectly from grant-supported activities (i.e., income generated after the grant funds have been applied to an authorized project).

Program income is a form of transit revenue, but it excludes:

- Sales proceeds (such as the proceeds from the disposition of vehicles if less than \$5,000)
- Interest earned on advances of federal funds
- Revenues generated by activities that are not grant supported

As noted previously, FTA excludes the proceeds from the sale of real property, equipment, or supplies in the definition of program income.

Examples of program income cited in the Super Circular

include:

- Income from fees for services performed
- The use or rental of real or personal property acquired under federal awards
- The sale of commodities or items fabricated under a federal award
- Advertising/concessions specifically required by the federal award and pertaining to specific activities or accomplishments that result from performance of the federal award
- License fees and royalties on patents and copyrights
- Principal and interest on loans made with federal assistance

Some examples of program income for a transit agency that receives federal grant awards include:

- Sale of vehicle maintenance services to third parties
- Rental of facilities owned by the transit agency to third parties

Treatment of Program Income in Grants Accounting

Federal grant management principles outline three (3) different options on the NFE's use of program income.

1. Deduction

Under this option, program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the federal awarding agency authorizes otherwise. Program income that the NFE did not anticipate at the time of the federal award must be used to reduce the federal award and NFE contributions rather than to increase the funds committed to the project.

If the federal awarding agency does not have legislation or rules on program income, and the award is not made to an institution of higher education or nonprofit research, the deduction method should be used.

⁸. See 2 CFR § 200.306(c).

2. Addition

The second option requires prior approval of the federal awarding agency (such as FTA), and then program income may be added to the federal award by the federal agency and the NFE. The program income must be used for the purposes and under the conditions of the federal award.

If the federal awarding agency does not have legislation or rules on program income, and the award is made to an institution of higher education or nonprofit research, the additive method should be used.

3. Local Match

With prior approval of the federal awarding agency (such as FTA), program income may be used to meet the cost sharing or matching requirement of the federal award. The amount of the federal award remains the same (Exhibit 7.6).

If the federal awarding agency has legislation or rules on program income, the local match method should be used.

FTA Provisions on Program Income

Each federal agency was given a six-month period after issuance of the Super Circular to cite any statutory or legislative provisions that may be unique to the agency's grant programs and that were inconsistent with the OMB guidance. These exceptions were submitted to OMB and subsequently published in the Federal Register on December 13, 2014.

U.S. DOT's exceptions are now codified at 2 CFR § 1201; these regulations, in part, supersede provisions of the Program Income definition found in the Super Circular at § 200.80. U.S. DOT regulations specifically exclude the following elements in the consideration of what constitutes program income:

- Rebates
- Credits
- Discounts
- Taxes

- Special assessments
- Levies and fines raised by a recipient or subrecipient
- Interest earned on any of these types of income

Best Practice in Grants Management

Regulations that govern Program Income will differ with the transit program from other grants received by the NFE. It is important that transit management practices ensure the organization's CFO and other key finance personnel are aware of the provisions of 2 CFR 1201.80.

Other Special Considerations on the Use of Program Income in FTA Programs

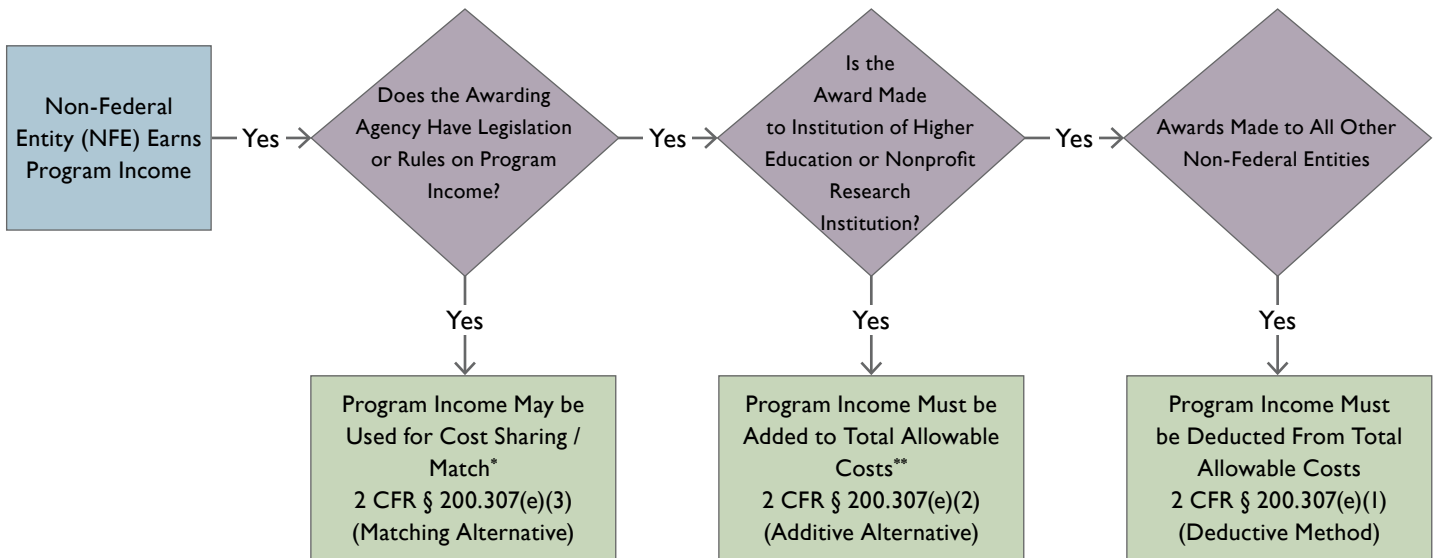
In addition to the regulatory deviations noted in 2 CFR § 1201, FTA also has several regulatory provisions on the use of program income that may differ from the policies of other federal grants received by the organization.

Fares. From a purely accounting perspective, fares could be construed as program income; however, this is not the case in FTA programs. Farebox revenue may not be used as non-federal share for any of FTA's grant programs. Farebox revenue is used to determine net project cost for operating assistance grants only. Additionally, farebox revenue is not considered program income for capital assistance grants.

Revenues Derived from a Service Agreement with a Human Service Agency. Income from a service agreement with a state or local social service agency or a private social service organization to provide transportation may be used either to reduce the net project cost (treated as revenue) or to provide local match for Section 5311 or Section 5310 operating assistance (treated as program income under the cost sharing/match alternative depicted in Exhibit 7.6).⁹ This is permissible as this authority emanates from enabling legislation passed by Congress.

⁹ 49 U.S.C. § 5310

Exhibit 7.6. Allowable Uses of Program Income



* Requires prior approval.

** Requires prior approval. Program income must be used for the purposes and under the conditions of the Federal award.

In either case, the cost of providing the contract service is included in the total project cost. Unlike other forms of program income, income from contracts to provide human service transportation may be used as the local match for the grant in which the income is generated.

Advertising. For the Section 5311 and Section 5310 programs, each program circular notes that revenues from the sale of advertising and concessions may be used as non-federal share of project costs and/or can be retained as part of a recipient’s undisbursed cash surplus.

Period of Use. In all other cases associated with FTA grant awards (excluding the ones mentioned above), program income may not be used to reduce the non-federal share of the award from which it was earned, but may be used as non-federal share for future awards.

In other words, if the transit agency earns program income from the lease of facilities, and facility costs are included in the FTA FY 2018 operating assistance grant, those lease revenues could only be used as local match for the FY 2019 operating assistance grant.¹⁰

Accounting Treatment of Program Income

Like donations, it is the responsibility of the NFE to ensure its accounting records fully document all revenues that are considered program income. The accounting system must be capable of identifying program income and the purpose for which it was used.

¹⁰ FTA Circular 5010.1E, Chapter VI, § 7g.

Chapter Summary

Contributions and donations represent a viable option to meet the matching share of federal grant awards when the NFE has difficulty raising cash resources. The value of contributions and donations can never be charged to the federal grant as a direct or indirect cost but may be used to meet match requirements.

NFEs must take special care to ensure that each contribution or donation to be used as local match be valued properly following the procedures outlined in this chapter.

Program income is income generated from grant supported activities. FTA encourages recipients to earn program income and will permit NFEs to use earned program income. However, if used as local match, the program income may not be used to reduce the non-federal share of the award from which it was earned, but may be used as non-federal share for future awards.

There is an exception for the program income from a service agreement to provide transportation for a state or local social service agency or a private social service organization. The NFE may use the income earned from a transportation service agreement with a social service agency to either reduce the net project cost (treated as revenue) or as local match.

CHAPTER 7 QUIZ

1. OMB regulations permit the transit agency to claim, as an eligible grant expense, organizational contributions to the United Way.

- True False

2. When a transit agency receives a donation from a third party, the entity has the option to charge the grant for the donation or claim the donation as part of the local match requirements.

- True False

3. Donated services provided by volunteer labor cannot be used as local match since the transit agency does not pay for these services.

- True False

4. When developing valuations of volunteer services, the NFE must use the pay scale of comparable positions in the workforce.

- True False

5. Nonprofit agencies, when donations in the aggregate are significant or when the donation involves substantial indirect costs, must include such transactions in the organization's indirect cost allocation plan.

- True False

6. When volunteer services are provided by another organization, the wage rates paid to that employee may be used as the valuation of the donated service.

- True False

7. When an FTA recipient or subrecipient receives a donation of goods or equipment, the current fair market value at the time of the donation may be used to value the donation.

- True False

8. The donation of real property for a transit project is permissible with the prior approval of FTA.

- True False

9. Donated office space is allowable provided the NFE develops a valuation based on current fair rental value of comparable space, as established by an independent appraisal of comparable spaces in a privately-owned building.

- True False

10. FTA permits program income to be used to reduce the non-federal share of the grant award from which it was earned.

- True False

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at FTA's website: <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc883535594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- TCRP Report 101: Toolkit for Rural Community Coordinated Transportation Services. Available at <http://www.trb.org/Main/Blurbs/154971.aspx>.
- TCRP Report 144: Sharing the Costs of Human Services Transportation. Available at <http://www.trb.org/Main/Blurbs/165015.aspx>.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 8: CASH MANAGEMENT

Beware of little expenses; a small leak will sink a great ship.

-Benjamin Franklin

According to a 2017 memorandum, 33 municipal governments experienced shortfalls of cash in the amount of \$1.8 million in 2014.

-Tennessee Comptroller of the Treasury, Division of Local Government Audit, "Cash Shortages and Other Thefts," September 25, 2017

Goals of this Chapter

Transit agencies must maintain effective control and accountability over revenues derived from fare collections and the sales of tickets and transit passes. Effective control includes written procedures that document how fare revenues will be collected, tabulated, and reconciled with operational records. To minimize risk from the potential theft or loss of such revenues, the entity transit agency should institute the requisite levels of internal controls that ensure that proper segregation of duties exist in all phases of cash handling.

This chapter is designed to:

- Identify best practices in cash handling
- Provide procedures for rural transit agencies that do not use fareboxes
- Identify appropriate internal controls for smaller agencies with limited staff in handling, recording, and depositing cash

Basic Responsibilities

Under federal grant guidance, subrecipients must periodically ensure the timely deposit of cash receipts to prevent fraud or loss, and ensure sufficient separation of function to provide adequate checks and balances in the cash handling process.

FTA Circular 5010.1E, Chapter II, § 3a outlines the basic responsibilities of recipients and subrecipients for FTA grants. One of the key items in this list of requirements is:

Ensure effective control and accountability are maintained for all Grants, Cooperative Agreements, and subagreements, cash, real and personal property, and other assets. Recipients and subrecipients must ensure that resources are properly used and safeguarded, and used solely for authorized purposes.

Effective control and accountability can be challenging for transit agencies as most cash is collected on-board system vehicles through the payment of fares for transit services. Most transit agencies have installed fareboxes to provide for greater accountability and to prevent theft or loss of fare revenues. However, experience shows that many smaller rural transit agencies do not use fareboxes, creating additional challenges on the proper storage, counting, and reconciliation of these revenues.

Additional factors can compound these challenges where rural transit agencies simply do not have the same type of resources as their urban counterparts.

For example, many rural transit agencies do not operate from facilities that were designed or owned/operated by the transit agency. These systems may not have:

- Secure storage areas for the storage of farebox vaults and revenues
- Dedicated counting rooms with controlled access, video surveillance, and other security features



In addition to issues associated with fare storage and counting, there are other situations that arise wherein the transit agency is collecting cash revenues. The transit agency may sell passes, tokens, tickets, or other types of multi- or single ride fare media. These sales are typically conducted in an office location where the public may have access. All these situations create risk for the transit agency. This chapter will outline best practices in cash handling when the agency is confronted by less than optimal institutional arrangements, so that the agency can minimize or mitigate theft or loss of cash revenues.

Fare Collection

The collection of fare revenue on-board vehicles and the sale of passes/tokens is the most common way in which rural transit agencies receive cash revenue. The agency has the responsibility to protect all revenue received from theft or loss to the greatest extent possible. The procedures in place to prevent theft and to ensure proper segregation of duties should be a written policy.

Farebox Management

Vault Collection Practices

For maximum security, public transit vehicles should be equipped with fareboxes containing lockable vaults. Drivers and other non-authorized staff must not have access to vault keys. A common practice at many small transit agencies is to only collect vaults at the end of every day rather than at the end of every shift. This practice, however, makes any potential discrepancies found between the fares collected and the driver manifests for that day harder to resolve.

By collecting vaults at the end of each shift, the transit agency ensures that revenue counts will be able to be tied to a specific driver and run manifest. When combined with a practice of rotating driver assignments throughout the system (e.g. different routes and vehicles), management can compare revenue counts for comparable work driven by different bus operators.

This enables management to address any potential theft/loss issues directly with the driver responsible, and to potentially see patterns between different drivers providing service for the same routes. For example, if one driver consistently turns in relatively fewer fares compared to other drivers driving the same routes and times of day, this would alert management that there is potentially an issue

that must be investigated. If multiple shifts occur during the day and vaults are only collected once, this issue may never come to light.

Alternative Systems to Fareboxes

While fareboxes are considered a best practice across the public transit industry in terms of security, they can be cost-prohibitive for small agencies or unreasonable for smaller vehicles. Common alternatives are small, portable, non-mounted metal fareboxes and lockable bank bags. Any alternative fare collection system used must account for the additional security risks these systems pose.

If a demand response or paratransit driver is providing door-to-door service and must occasionally leave the vehicle, fares must be secured to the best of the driver's ability. A best practice securement method in this case is to place the fares in a locked glove compartment. Use of any other type container, or failure to use any type container (e.g., the driver keeps cash revenues in pockets), does not represent a good practice.

Exact Fares

Drivers should not make change on vehicles. Virtually all transit agencies have adopted this policy; however, there are several small transit agencies across the country that still make change. There are several reasons why drivers should not make change:

- Fare collection tasks increase potential disputes with customers, further enhancing opportunity or assaults on agency drivers.¹
- Making change means that drivers must carry an additional amount of cash above and beyond typical fare revenues, increasing the complexity of the turn-in and reconciliation process.
- The task of making change may distract a driver from other important safety tasks.
- Additional cash on-board system vehicles, even in nominal amounts, increases risk of assault on vehicle drivers and theft.

- Fare collection tasks adversely impact the system's on-time performance.

Turn-in Procedures

If possible, fares should be turned in at the end of each driver's shift. Written procedures that provide adequate segregation of duties, or internal controls, must be in place to ensure accuracy and the prevention of theft and loss throughout the rest of the process, until fares have been deposited and recorded in the agency's accounting system. An illustration of an example procedure is provided in Exhibit 8.1.

Many rural transit agencies do not have office personnel on-duty during all hours of operation. This means some aspects of the procedures must be postponed until the following business day. Such agencies should adopt procedures for turn-in of fares during normal administrative hours and for turn-in after hours.

Segregation of Duties

Turn-in procedures will require several steps. A key element for internal controls is to ensure that written procedures incorporate sufficient segregation of duties in these steps. In short, this means that management should assign sequential duties to separate individuals to ensure that no one individual has responsibilities for multiple tasks that could result in theft or loss.

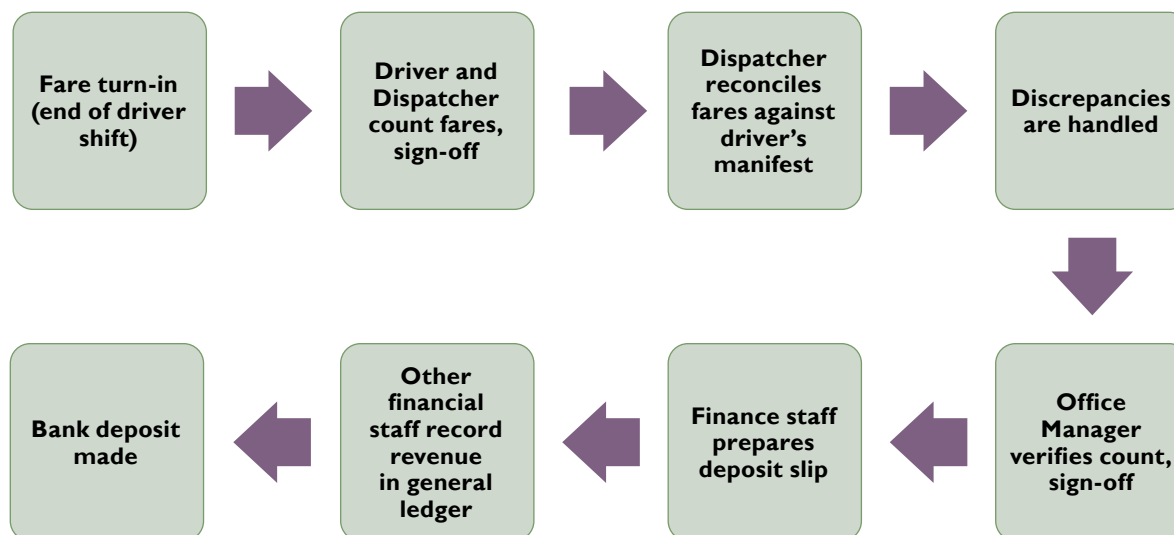
The lack of segregation of duties in the revenue counting function is typically the single, most common audit finding in rural transit agencies. Resolving this finding can be a challenge for smaller agencies that may only have one administrative staff person in the office. Agencies should work with their auditors to develop an acceptable solution. Regulations governing the auditing process at 2 CFR § 200.516(b)(9) stipulate that the auditor should provide:

Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

Transit agencies should not hesitate to request (or even require) their auditors to provide proactive recommendations on how to implement adequate

¹ Transit Cooperative Research Program (TCRP) Research Report 193: Tools and Strategies for Eliminating Assaults Against Transit Operators, Volume 1: Research Overview, Transportation Research Board, Washington, D.C. (2018), p. 6.

Exhibit 8.1. Illustration of an Example Fare Collection Procedure



segregation of duties.

As hiring of additional staff is rarely an option for most agencies, use of other operating personnel (e.g. dispatchers or schedulers) is typically the only available strategy. If part of a local government or a multiple-purpose nonprofit agency, transit agencies should seek use of other agency personnel to step in for a few minutes each day to participate in the revenue counting function to ensure that proper segregation of duties is achieved.

Turn-In During Normal Administrative Hours

Fare Turn-In at End of Work Shift

At the end of each work shift, the driver should gather all necessary paperwork, tablet, or other tools used to record activity during the trip. If a farebox is used, the driver should open the farebox and pull the locked vault. If there is no farebox, the driver should take the pouch, lockbox, or other container used to store cash into the transit facility.

Under ideal circumstances, drivers will enter the transit operations/administrative facility through a separate (staff-only) entrance directly off the vehicle parking/storage area. If possible, drivers should not enter the premises through the same access points as members of the public.

Upon entering the facility, the driver should proceed

directly to a work area where paperwork or other required turn-in reports are completed.

Counting Revenues

Designated personnel within the transit office should conduct the counting process. For most transit agencies, personnel from accounting or dispatch have prime responsibility for farebox counts. Counts should always be done by two (2) persons. In the event that two non-operating personnel are not available, the driver will typically participate in the count. However, the driver should never conduct the count alone.

Transit agencies should use a separate fare tabulation sheet to record the amounts counted. The signatures of both parties who observed and participated in the count should be affixed to the tabulation sheet.

If available within the facility, a separate, access-controlled room with security cameras should be used to conduct the counts. However, a dedicated room is not often available; if this is the case, the transit agency should use an office or area within the facility with limited foot-traffic out of the public access areas of the building. While security cameras have historically been outside the financial reach of many smaller transit agencies, declining prices now place such technology within the reach of even the smallest agency. Cameras should be in place to record the counting process.

As a best practice, drivers may or may not be involved in counting fares but should at least be present during the initial count. This ensures a mutual understanding at the onset of the amount turned in and protects the individuals involved.

Reconciliation of the Revenue Count

For a fixed-route system, or any system that allows walk-ons, all passengers must be accounted for by fare type. In the absence of registering fareboxes and/or automatic passenger counters (APCs), drivers typically use a color-coded button counter to document passengers by fare type.

For a demand-response system, drivers must document any changes in ridership to the original manifest. If this occurs accurately, the driver and any staff involved in counting fares will be able to count and reconcile passenger counts by fare type, and the amount of cash that should be recorded in the count.

Handling Discrepancies

Discrepancies between expected fare revenue and actual fare revenue may be attributable to multiple factors, some of which do not involve theft. Passengers may not deposit into the farebox the full fare or may provide less than the full fare to the driver. Transit agencies that serve low-income populations may have policies to permit passengers to not pay the fare if they do not have sufficient funds.

In all demand-response operations, if a driver knows a passenger is paying less than the full fare or cannot pay the fare at all, the manifest should be notated. An agency may also have the policy for the driver to call in the discrepancy to the dispatcher.

Transit agencies should have a policy in place that dictates what actions will be taken in the event of a discrepancy.

Reporting to Finance

Once the count and reconciliation are complete, both parties who observed and participated in the count should sign the tabulation sheets. The fare revenues along with one copy of the tabulation sheet should be forwarded to the finance department for further processing.

Turn-In After Normal Administrative Hours

In some rural areas, dispatch services are not available during all hours and days of operation. In this situation, the drivers typically turn-in fares when no other personnel may be in the transit office.

In these cases, the driver should pull the farebox vault, money pouch, and all other appropriate documentation for turn-in inside the office. Money pouches, storage boxes, or vaults should never be left on-board system vehicles, even if secure vehicle storage facilities exist.

Once inside, the transit agency should have a method wherein the driver can safely store the vault or money pouch overnight, so the counting and reconciliation process can occur the next day. Since some areas of the office may already be locked for security purpose, this task also poses challenges.

Normally, drivers have limited access within the transit facility after-hours. Thus, to secure fare revenues, the transit agency should create some type of drop box device that connects the driver's room to another room in the facility that is secure (locked), similar to a mail chute or a night bank deposit door.

Reconciliation and counting are then performed the next business day by personnel who arrive early.

Recording in the Accounting System

After fare counting and reconciliation, the fare revenue and a copy of the signed tabulation sheet should be provided to the personnel responsible for the finance department. The role of the finance department is to:

- Recount and verify the tabulation made by operations personnel
- Make an entry in the general ledger of the accounting software to record the revenue
- Prepare the deposit slip
- Make the deposit

Segregation of duties in these tasks is also critical. The individual who does the recount and journal entry should not be tasked with deposit preparation. And, if possible, deposits should be made by a different individual.

The purpose of assigning different individuals to perform relatively small tasks is the fact that cash can be stolen. Although management may have the utmost confidence in the honesty and integrity of its employees, if opportunities exist through lack of internal controls, thefts may occur.

Depositing Cash Revenues

Every agency should have a written deposit policy governing the deposit of funds. Funds collected by the organization that remain on premises pose a risk for theft or loss. A good deposit policy should include the following elements:

- Frequency of deposits
- Storage of revenues
- Remote offices

Frequency of Deposits

There are no universal rules regarding the recommended frequency of deposits; any funds held on premises exposes the transit agency to risk. Management and the governing board must assess this risk and act accordingly. Some agencies may be subject to state laws in this regard. For example, in North Carolina, public agencies are required to deposit cash daily.

While fare collections at smaller transit agencies may be relatively nominal in amount, many agencies establish a limit that automatically triggers the requirement to make a deposit. For example, once fare revenues on-hand exceed \$200, a deposit must be made.

Storage of Revenues

Even with stringent deposit policies in place, there may be instances when revenues must be stored in the facility for more than a day. The transit agency should take all reasonable steps to store these revenues in a secure location.

All too often, revenues are stored in office desks or file cabinets. While each may be locked, the locks on such furniture can be easily defeated. Such devices do not constitute secure storage of revenues. If the transit agency opts to store revenues for longer than 24 hours, the agency should invest in a small office safe. The safe should be located in the most secure location within the facility and access to the location should be limited.

Remote Offices

Some rural transit agencies cover a multicounty service area and may operate satellite offices in each county. Turn-in and fare collection practices may take place at these remote office locations. This scenario poses issues for transit management. Should each satellite office process its own revenues in a decentralized manner, or should the satellite offices transfer revenues back to the central office for processing?

To the extent possible, counting, reconciliation, and deposit should occur at the satellite offices, following written protocols and policies established by the central office. Transport of fare revenues by other than secured armored transportation is not a best practice. During a recent state conducted compliance review, the state found that a rural transit system with multiple county offices was forwarding fare revenues via use of system vehicles in revenue service. This should never be done; the system is unnecessarily exposing such revenues to theft or loss and possibly exposing drivers to possible assault.

Ideally, the satellite office will be in a community where a branch of the transit agency's primary banking institution is located. Fare revenues are counted and reconciled according to a written procedure adapted from the central office procedure. Fare revenues can be deposited into an account at the banking institution branch. Accounting personnel reconcile the deposit amounts with the fare and service reports filed with the central office. Then, at the end of each month, these local bank accounts are swept, with the revenues being transferred to the primary transit agency bank account.

Other Revenue Collection

Sale of Passes and Other Fare Media

Many transit agencies sell passes or tokens, where riders can purchase, typically at a discount, multiple rides. If an agency chooses to create and sell passes or tokens, instead of cash on vehicles, preventive measures must be taken against potential fraud and misuse.

For administrative simplicity and cost considerations, most passes are simply printed on cardstock and may be laminated. With many home or small office printers, such passes can often be counterfeited; transit agencies must take steps to reduce the chance of fraudulent reproduction of such cards.

While many transit agencies offer purchase of such fare media online or through the mail, many will also sell passes and tokens at the transit agency's administrative office. This creates a cashiering function that adds fiduciary responsibilities, triggering the need for internal controls.

To prevent fraud and misuse, the industry best practice is to number all tokens/passes and record the numbered passes sold. Used passes and tokens are collected by the driver on the vehicle, and are reconciled with the list of passes and tokens sold. If a number is found multiple times, or if a number that has not been created yet is identified, the agency knows that passes are being replicated and who originally purchased the pass. The possible fraud can be investigated.

Pass or Ticket Design Considerations

The primary objective of pass or ticket design, whether produced in-house or by a third-party printer, is to reduce the chance of counterfeiting fare media. The transit agency can take the following steps to reduce such chances:

- Number and maintain inventory control over the distribution of passes or ticket books. Ensure that with each sale, the numbered pass and the person who purchased it is recorded in agency records.
- Monitor and periodically audit (two to four times per year) random tickets and passes used to pay transit fares to ensure the number corresponds to a pass sold.
- Use a less than common card or paper stock color—a color not readily available at local big box office supply stores.
- Incorporate high resolution graphics into the design of the pass/ticket. While more expensive to produce, typical counterfeits will be more easily detected by bus operators due to blurred images that are produced at a lower resolution on home printers.
- Place text or graphics on both sides of the pass/ticket. Duplex printing requirements will discourage counterfeiters.

Point-of-Sale Considerations

Design and Security Issues

If possible, transit administrative offices should have controlled access. A public reception area may be provided; if so, the transit agency employee with cashier responsibilities should be stationed behind a half-wall or combination structural or glass enclosure for security. If this is not possible, the system should consider acquisition of furniture specifically designed for a cashier's station. Such stations will have a counter space and modular storage below the counter for stock and cash boxes. If there is a sufficient volume of sales, the transit agency should consider acquisition of a cash registering system that will, along with providing secure cash storage, also facilitate or automate the monitoring of ticket and pass sales.

In establishing such facilities, transit agencies should also ensure that sales locations be accessible to individuals with disabilities, particularly wheelchairs. ADA design standards indicate that counter space should be at least 36 inches long and be located no higher than 36 inches above the floor to ensure usability by those individuals who use a wheelchair.²

Internal Control Considerations for Points-of-Sale

All fare media should be stored in a locked or secured area not located within the public access areas of the transit agency office. At the close of each day, all unsold fare media should be removed from a locked storage area at the point-of-sale and stored in a secure, internal area. Each morning, only the inventory anticipated for sale that day should be removed from storage.

A designated party, other than the cashier, should be responsible for stocking the cash drawer with sufficient funds to handle the day's transactions. There is no rule-of-thumb guidance on how much cash should be kept in the cash drawer; this should be dictated by needs of the individual transit agency. Only limited parties should have access to the locked cash drawer or register, such as a supervisor and the cashier(s). If the hours of operation extend beyond the shift of any one cashier, the cash drawer should be pulled at the end of the shift and a second drawer should be used by other cashiers. In this manner, reconciliation of cash and sales can be performed

² 2010 ADA Standards for Accessible Design, Standard 904.4.2, Architectural and Transportation Barriers Compliance Board.

based on specific employees. No other employees should have access to the cash drawer other than the cashier during sales periods.

Cash pulls, or the removal of excess cash that accumulates in the cash drawer during the sales day, should be considered if the volume of sales warrants. Written policies should spell out the amounts. The cashier should be tasked with notifying supervisory personnel when a pull should be made.

All cash in the cash drawer should be separated by denomination to facilitate the reconciliation process. Checks should be kept together, separate from currency. If credit cards are accepted, signed credit card receipts should be similarly segregated.

All sales should be documented and the customer provided with a receipt. If the customer does not wish a receipt, dispose of their receipt and keep the transit agency's copy in the cash drawer.

In exchanges of cash between the customer and the transit agency, the cashier should count the cash (if multiple bills are provided) in front of the customer. If only a single bill is provided, the currency should be temporarily held outside the cash drawer during the transaction (e.g., not immediately placed in the cash drawer) in the event that the customer disputes the amount of the currency provided. Similar to the cash received from the customer, all change should be counted by the cashier in front of the customer before handing over the change.

In the absence of a cash register or similar device, a sales log should be kept at the cashier's work station and all sales should be recorded before the end of the sales transaction.

Close-Out and Reconciliation

At the end of each shift, the cashier should remove the cash drawer and, in an internal office location outside the view of the public, count and reconcile all cash and receipts. This location will likely be the same room as where fare tabulations are conducted (e.g., a room with controlled access with security cameras).

All close-out documentation should be provided to the finance department, where a second individual should

verify the count.

All reconciliation counts should be done with a 10-key calculator and the register tape attached to each count. Cash should be reconciled to receipts if manual cashiering methods are used.

Once reconciled, all cash and receipts should be stored in a safe or other secure location prior to making the bank deposit.

Check by Mail Considerations

When a transit organization is likely to receive checks via the mail, written policies should be developed for handling and processing receipts of such payments. A designated individual should be tasked with opening mail and segregating any checks received. A separate cash received log should be maintained by this individual. After documenting details about the payment (date, sender, purpose, amount, intended program distribution), all checks should be turned over to the finance department where a second, separate individual will be tasked with matching the check to an invoice, or otherwise documenting the purpose of the receipt and entering the amount in the general ledger, as appropriate.

If possible, a third individual should be tasked with the preparation of the daily deposit slip.

Donations

The rules of the US Department of Health and Human Services (DHHS), Administration for Community Living (ACL) (codified at 45 CFR 1321.67(a)(1)), stipulate that donations must be used to expand the scope of the supportive service that collected that donation.

ACL requires the entity to report all donations. On the other hand, FTA's National Transit Database (NTD) manual states that it is required that:

....donations that are made on a revenue vehicle or at a farebox should be reported as fares.³

In order to abide by both agencies' regulations, the transit agency should segregate the donation collection function and ensure that older adults who wish to donate to their local aging program to help expand program services

³. 2019 National Transit Database Policy Manual, Federal Transit Administration, Office of Budget and Policy, p. 73.

should make such a donation at the senior center or by mail. Otherwise, the transit agency is obligated under current FTA policy to record this donation as fare revenue and use it to compute the net cost of service (as discussed in Chapter 5 and Chapter 6 of this manual).

Chapter Summary

Any recipient of federal funds must ensure that the entity maintain effective control and accountability over all grant revenues. For transit agencies, this includes revenues derived from fare collection and the sale of tickets and passes.

All transit agencies should have written procedures that document how fare revenues are collected, tabulated, and reconciled with operational records. To minimize risk from the potential theft or loss of such revenues, the transit agency should institute the requisite levels of internal controls that ensure that proper segregation of duties exist in all phases of cash handling.

Similarly, transit agencies should adopt written protocols for deposits of funds after receipt; agencies should maintain cash-on-hand for as little time as possible. When revenues must be maintained on-site, secure storage of those revenues is a necessity.

Notes

CHAPTER 8 QUIZ

1. It is considered a best practice to have written internal control guidance to ensure that cash resources are properly used and safeguarded.

- True False

2. FTA requires all transit agencies to use some type of farebox to minimize theft of fare revenues.

- True False

3. All federally funded transit agencies must charge a fare to help reduce total system operating costs and federal participation in the net cost of service.

- True False

4. Farebox vaults should be pulled daily.

- True False

5. The Super Circular requires that all cash receipts be deposited daily.

- True False

6. Two persons should be tasked with farebox revenue counts and reconciliation.

- True False

7. If a driver's shift ends after the normal business hours of transit operations, farebox vaults should be kept locked in the farebox overnight and removed by authorized personnel the next business day.

- True False

8. In small transit agencies, there are no segregation of duty requirements due to limited personnel.

- True False

9. As a control measure, all bus passes should be numbered.

- True False

10. When passes are sold at the transit office, receipts should be generated for all transactions.

- True False

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National Transit Database (NTD) Policy Manual. The latest version is available at <https://www.transit.dot.gov/ntd/manuals>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- TCRP Report 193: Tools and Strategies for Eliminating Assaults Against Transit Operators. Available at <http://www.trb.org/Main/Blurbs/177583.aspx>.

Notes

CHAPTER 9: NTD REPORTING REQUIREMENTS

To help meet the needs of individual public transportation systems, the United States Government, state and local governments, and the public for information on which to base public transportation service planning, the Secretary shall maintain a reporting system, using uniform categories to accumulate public transportation financial, operating, and asset condition information and using a uniform system of accounts.

- 49 U.S.C. § 5335(a)

What kinds of data are federal award recipients expected to include in their reporting?

The information falls into one of three categories: financial data, such as expenses paid for with federal funds; compliance information to ensure the recipient is following federal regulations; and project data highlighting progress and/or community impact.

- www.Grants.gov

Goals of this Chapter

As part of federal grant reporting, the National Transit Database (NTD) collects financial, operating, and asset information about transit agencies and the public transportation services they provide. NTD reporting for Section 5311 funding recipients is mandatory. The state DOT or other designated agency must submit an annual report that includes individual reports for each Section 5311 subrecipient.

This chapter is designed to:

- Review the basic requirements of the NTD
- Review reporting requirements of Section 5311 funding recipients for the NTD
- Provide clarification on key rural reporting issues as stipulated by NTD guidance

Grant Reporting for NTD

Grant reporting to the NTD can be a daunting task, particularly for transit agencies that receive and manage multiple federal grants. Grant reporting is often a barrier to the coordination of public and human services transportation. A 2003 GAO report identified grant reporting as one of the key obstacles that hindered coordination efforts.

Coordinating multiple programs administered at various levels of government is complicated because the programs have different requirements with respect to eligibility, funding, reporting, and safety; and they differ in their programmatic goals and missions.

Source: GAO Report 03-697 (June 2003), p.30.

GAO focused on the issue of reporting requirements, noting that “different reporting requirements among programs can create excessive paperwork in a coordinated system and may make it difficult for agencies to determine their true transportation costs and the benefits that may be realized from coordination.”¹

The GAO report identified no less than 62 different federal programs that supported the transportation of “transportation disadvantaged persons,” defined as individuals who are elderly, low income, or persons with disabilities. In another report in 2015, GAO identified 80 different federal programs that support transportation for older adults and other transportation disadvantaged persons.² Many of these programs are administered at the state level, meaning that each state agency is responsible for establishing its own reporting requirements. Thus, a recipient of funds from the Older Americans Act, Title III-B program in one state may have different reporting requirements from a recipient located in a different state. Documenting the varied reporting requirements of each state is beyond the scope of this manual; rather the manual will focus on a standardized reporting process to

NTD that is applicable to all recipients of FTA Section 5307 and Section 5311 funding.

The National Transit Database

History

In 1974, Congress established the NTD program to collect information and statistics about federally funded transit agencies and the transit services provided by those agencies. Congress based the NTD program on the Uniform Financial Accounting and Reporting Elements (FARE), a project initiated by the transit industry. As the need for transit assistance grew, Congress continued to develop the NTD program and increased the reporting required.

Originally, NTD reporting was required only of Section 5307 recipients; Section 5311 or Section 5310 subrecipients did not have to report. A group of states, however, decided that a uniform, abbreviated form of reporting for rural entities would be beneficial. Around 2000, several states began a dialogue with FTA about establishing a voluntary reporting system for Section 5311 entities. This voluntary system was embraced by several demonstration states and proved a success. With the passage of SAFETEA-LU in 2005, NTD reporting for Section 5311 agencies became mandatory. The legal basis for NTD reporting can be found in 49 U.S.C. § 5335(a)-(c) (see Exhibit 9.1).

This requirement does not apply to organizations that only receive funding under the Section 5310 program.

Use of NTD Data

While comparative analysis of various transit agencies is certainly a key use of NTD data, the primary purpose of this requirement is the apportionment of funding under the Section 5307 program. FTA apportions Section 5307 funding through a formula based in part on population and population density. For urbanized areas with a population over 200,000, FTA apportions funding based on the previously noted population and population density, plus additional factors associated with transit operations, such as revenue miles, operating costs, and

¹ U.S. General Accounting Office, *Transportation Disadvantaged Populations: Some Coordination Efforts Among Programs Providing Transportation Services, but Obstacles Persist*, GAO-03-697 (Washington, D.C.: 2003).

² U.S. Government Accountability Office, *Transportation for Older Adults: Measuring Results Could Help Determine if Coordination Efforts Improve Mobility*, GAO-15-158 (Washington, D.C.: 2015).

- (a) **NATIONAL TRANSIT DATABASE** — To help meet the needs of individual public transportation systems, the United States Government, state and local governments, and the public for information on which to base public transportation service planning, the Secretary shall maintain a reporting system, using uniform categories to accumulate public transportation financial, operating, and asset condition information and using a uniform system of accounts. The reporting and uniform systems shall contain appropriate information to help any level of government make a public-sector investment decision. The Secretary may request and receive appropriate information from any source.
- (b) **REPORTING AND UNIFORM SYSTEMS** — The Secretary may award a grant under Section 5307 or 5311 only if the applicant, and any person that will receive benefits directly from the grant, are subject to the reporting and uniform systems.
- (c) **DATA REQUIRED TO BE REPORTED** — The recipient of a grant under this chapter shall report to the Secretary, for inclusion in the National Transit Database, any information relating to a transit asset inventory or condition assessment conducted by the recipient.

Source: NTD 2019 Policy Manual, page 10.

passenger miles—derived directly from NTD data. For Section 5311 grants for rural areas (those with populations of under 50,000), a small portion of the funding is allocated based on vehicle revenue miles from the NTD.

Who Must Report

Only eligible public transportation services must be reported to the NTD.

This means NTD reporting **excludes**:

- Intercity bus service (unless funded under Section 5311(f))
- Intercity passenger rail transportation
- Charter bus service
- School bus service
- Sightseeing service
- Courtesy shuttle service for patrons of one or more specific establishments
- Intra-terminal or intra-facility shuttle services

For most FTA recipients, this list of excluded services should not pose problems, as most readers of this manual

will not engage in the delivery of these modes of transit service. However, reporters that do periodically provide a charter service under an exception to the regulation, must exclude those services from NTD reports. Based on the type of exception, the transit agency is obligated, however, to report certain data elements to the FTA charter websites. For Section 5311 subrecipients, these data are reported to the state DOT.

The data that must be reported depends on the type of funding the entity receives and whether the entity is a direct recipient or a subrecipient of FTA funds.

Types of Reporters

The level of detail and even the frequency of NTD reporting is dependent upon the funding received, modes of transit service delivered, size of the transit system, and whether the system has received any waiver of NTD reporting requirements.

NTD further clarifies that beneficiaries of Section 5307 and Section 5311 funding must report. Therefore, the scope of reporting responsibilities may extend to an organization that receives funding from another recipient.

Urban Reporters

Any recipient or beneficiary of Section 5307 funding will be classified as an Urban Reporter. There are three types of urban reporters:

- Full Reporter
- Reduced Reporters
- Separate Service Reporter

This category includes transit agencies that service both urbanized and rural areas and receive both Section 5307 and Section 5311 funding to finance the operation. In these cases, it is necessary for the reporter to file two reports: one as an urban reporter with the NTD and a second report with the state DOT for the rural component. Often agencies in this category must adopt allocation methodologies to ensure equitable distribution of expenses and revenues to the appropriate report.

Rural Reporters

Rural reporters are one of three types:

- State DOTs
- Rural Reporters
- Reduced Reporters – Tribes

The definitions of these reporting types are found in Exhibit 9.2.

Generally, a state is responsible for submission of all Section 5311 reports. The state DOT or other designated agency must submit individual reports for each subrecipient. At the state's option, a subrecipient sends a report to the state on a monthly, quarterly, or annual basis (most states use a quarterly or annual submission). A state DOT may authorize an individual subrecipient to enter data into the NTD internet reporting system as a self-reporting subrecipient; however, state DOTs are ultimately responsible for submitting and ensuring the accuracy of the completed state report.

There are three rural reporting subtypes: Section 5311 subrecipients that provide rural general public transit,

Section 5311(f) subrecipients that provide intercity bus or feeder services, and tribal subrecipients that receive Section 5311 funds from a state DOT.

Section 5311/General Public Transit Reporters

Most subrecipients qualify as rural general public transit (RGPT) providers. RGPT providers are transit agencies that provide rural service and either receive or benefit from Section 5311 funding.

Section 5311(f) Intercity Bus Reporters

States must provide an NTD report for each intercity bus subrecipient/contractor that provides or benefits from Section 5311(f) funding.

The NTD report must include the operating and capital expenses from Section 5311(f) funding, as well as vehicle revenue miles and unlinked passenger trips for service funded, in whole or in part, by Section 5311(f).

Reporting for Section 5311(f) services differs somewhat from all other reporters. This is due to the “whole or in part” clause noted above that is included in the NTD Policy Manual.³ If a portion of an intercity route is funded, NTD data must be submitted on the whole route, not just the funded portion of the route.

Another important element for Section 5311(f) funded services is the fact that feeder services are an allowable service under the Intercity Bus Program, but are not reported as intercity bus service under the NTD. States must report operating and service data for these services according to reporting type and mode definitions. For example, if the feeder service is provided in demand response mode, this service is reported under Section 5311/Rural General Public Transit as a demand response service.

³. NTD 2019 Policy Manual, Office of Policy and Budget, Federal Transit Administration, page 27.

Exhibit 9.2. Descriptions for Urban and Rural NTD Reporters

Urban Types	Description	
Full	<ul style="list-style-type: none"> • Receives or benefits from Section 5307 funding • Operates either: <ul style="list-style-type: none"> ○ More than 30 vehicles across all modes and types of service; or ○ Up to 30 vehicles or fewer across all modes and types of service and operates fixed guideway and/or high intensity busway 	
Reduced	<ul style="list-style-type: none"> • Receives or benefits from Section 5307 funding • Operates 30 vehicles or fewer across all modes and types of service and does not operate fixed guideway and/or high intensity busway 	
Separate Service	<ul style="list-style-type: none"> • Receives or benefits from Section 5307 funding • Does not directly operate service • Contracts out modes that are reported by another transit agency 	
Build	<ul style="list-style-type: none"> • Receives or benefits from Section 5307 funding • Does not directly operate or contract out service • Is building or rehabilitating transit infrastructure 	
Plan	<ul style="list-style-type: none"> • Receives or benefits from Section 5307 funding • Does not directly operate or contract out service • Spends Section 5307 funding on planning activities 	

Rural Type	Subtypes	Description
States	N/A	A state DOT that directly receives and distributes rural funding to rural subrecipients. A state DOT is responsible for all subrecipient data. A state may elect to complete a subrecipient report on behalf of the subrecipient or allow the subrecipient to complete its own report. The state DOT must submit the NTD report.
State Subrecipient	<ul style="list-style-type: none"> • Rural General Public Transit • Intercity Bus • Urban/Tribal Recipient 	Operators of transportation that receive or benefit from Section 5311 funding, either directly or through a state DOT. Each subrecipient files an Annual Report under its state DOT.

Source: NTD 2019 Policy Manual, pages 25-27.

Tribal Recipients

Indian Tribes and Alaska Native Villages that receive Tribal Transit Program funding directly from FTA must report directly to the NTD. If a tribe is both a direct recipient of Tribal Transit Program funds and Section 5311 funds through the state, the tribe must complete both the direct report to NTD and a summary form to the state as a Section 5311/Tribal subrecipient. The subrecipient report to the state is a shortened form to report expenditures from Section 5311 grants.

FTA also encourages tribes that operate public transportation, but do not participate in the Tribal Transit Program, to report to the NTD on a voluntary basis. By reporting voluntarily, tribes qualify for inclusion in future Tribal Transit Program apportionments, as the tribal transit formula grants are allocated in large part based on reported vehicle revenue miles.

Subrecipients, Pass-Through Recipients, and Contractors

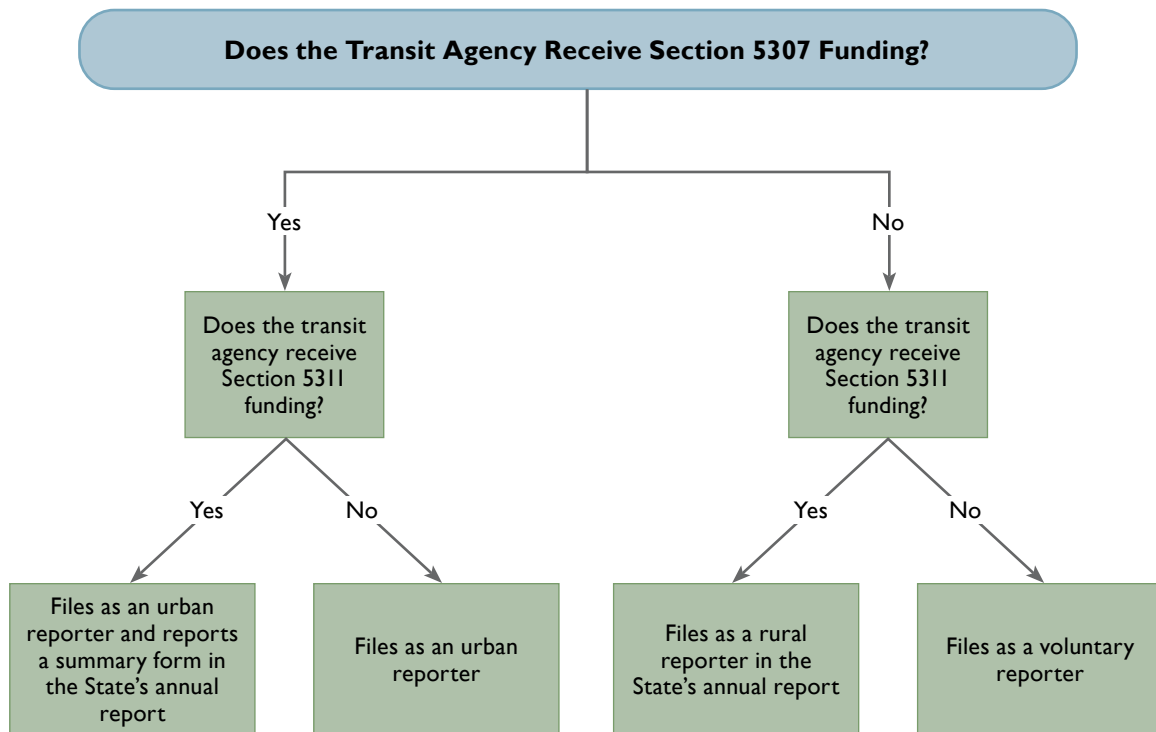
Some entities in the Section 5307 program and most Section 5311 funded agencies receive their funding as a **subrecipient** or even as a **lower-tier subrecipient** (e.g., a local government receives the grant from the state and, in turns, awards funds to a nonprofit agency to operate the rural transit service). These entities fall under the definition of beneficiaries and are obligated to report.

Joint Recipients

Transit agencies commonly provide service in both a rural area and an urbanized area as defined by the U.S. Census. In this situation, a transit provider may receive or benefit from multiple FTA formula programs.

An illustration of reporting requirements for agencies that receive urban and rural funding is found in Exhibit 9.3.

Exhibit 9.3. Reporting Requirements for Transit Agencies that Receive Urban and Rural Funding



Source: NTD 2019 Policy Manual, page 28.

Report Data

Service Area

All reporters must indicate where they provide transit services by urbanized area (UZA) and nonurbanized (rural) area. Tribal reporters must report the American Indian Areas or Alaska Native Areas where they operate public transit, as recognized by the U.S. Census Bureau.

Regardless of whether the agency is an urban reporter or rural reporter, the service area is reported according the mode of service (see discussion of modes of services later in this section).

For bus modes and rail services subject to ADA requirements, agencies use ADA definitions and requirements to determine service area boundaries and population:

- Bus service area is defined as three-fourths of a mile on each side of a local fixed route.
- Rail service area focuses on three-fourths of a mile radius around each station.

For demand response and demand response-taxi modes, transit agencies report actual service area, including:

- Service that extends beyond ADA paratransit requirements of three-fourths of a mile on each side of a local fixed route.
- Service to the general public.

For modes not covered by ADA, including vanpool, transit agencies determine service area and population using locally defined criteria. Service area square miles and population must be reported to NTD. This will typically require the transit agency to rely on geographic information system (GIS) capabilities to generate these data, as the U.S. Census Bureau does not produce demographics for transit service areas.

Types of Services

The NTD reporting structure is based on types of services provided. The NTD uses two primary types:

- Directly operated services
- Purchased transportation

Directly Operated Services

Transit agencies classify service as directly operated if they use their own employees to operate the transit vehicles. Agencies that directly operate service typically employ drivers, schedulers, dispatchers, and street supervisors.

Purchased Transportation

Purchased transportation is when a transit agency enters into a contract with a public or private provider to provide transit service. In these cases, the contractor operates the transit vehicles and provides the transit service. The buyer or seller of service may provide vehicles or maintenance facilities; however, the buyer of service must pay the full cost in order to report the service as purchased transportation. Further, the NTD requires that purchased transportation be based on a written contract.

Modes of Service

The NTD has an elaborate array of defined modes of public transit services operated in the United States, encompassing 20 different modes. Most will not apply to readers of this manual; thus, only relevant modes are noted herein. The modes and definitions relevant to rural operators are found in Exhibit 9.4. As of 2019, FTA added two new types of service, taxi (TX) and transportation network company (TN), which may be implemented in future reporting years.⁴

⁴ National Transit Database Reporting Changes and Clarifications,

Found at: <https://www.federalregister.gov/documents/2019/04/09/2019-06943/national-transit-database-reporting-changes-and-clarifications>

Financial Data

Financial data required for NTD reporting consist of revenues and expenses. Expenses are subdivided into operating and capital expenses. NTD uses the definition of equipment found in the Super Circular to define a capital item (useful life of one year and a unit acquisition cost of \$5,000 or greater). If, however, a transit agency sets its capitalization level lower than current OMB thresholds, the transit agency must report capital expenses and revenues to NTD using the agency's lower threshold. Capital and operating revenues are reported on the same NTD F-10 Sources of Funds form.

Accrual Accounting

The Generally Accepted Accounting Principles (GAAP) require that all financial data in the NTD Annual Report follow accrual accounting principles:

- Agencies record revenues when they earn them, regardless of whether they actually receive the revenue in the same fiscal year.
- Agencies record expenditures as soon as they owe an entity, regardless of if they pay the funds for the expenditure in the same fiscal year.

Exhibit 9.4. Modes of Transit Applicable to Rural Transit Operations

Mode	Abbreviation	Definition
Aerial Tramway	TR	A system of aerial cables with suspended vehicles.
Bus	MB	Fixed-route bus service is the most prevalent transit mode in the country. MB service is powered by a motor and fuel contained within a vehicle. Transit agencies must report any route deviation or point deviation as MB service. A transit agency that provides local fixed-route bus service must also operate complementary ADA paratransit for individuals with disabilities who are unable to use the fixed routes.
Commuter Bus	CB	Fixed-route bus systems that primarily connect outlying areas with a central city. Service typically uses over-the-road buses with service predominantly in one direction during peak periods, limited stops, and routes of extended length. Commuter bus modes typically operate with at least 5 miles of closed-door service.
Demand Response	DR	Shared-ride demand response service is scheduled in response to requests from passengers. Many transit agencies operate DR service to meet the requirements of the ADA.
Demand Response – Taxi	DT	A special form of the demand response mode operated through taxicab providers but with a system in place to facilitate shared rides. The mode is always a purchased transportation type of service. For a Demand Response Taxi to be considered public transportation, there must be an attempt for a shared ride program. Voucher Programs are not considered public transportation.
Vanpool	VP	A commuting service operating under pre-arranged schedules for previously formed groups of riders in vans. Vanpool is a mode of transit where the riders generally operate the vehicles (drivers participate in the vanpool program). Transit agencies managing vanpool programs must publicize them in the same manner in which they advertise their other public programs (e.g., agency website, media).

Source: NTD 2019 Policy Manual, pages 33-39.

If a transit agency uses a cash-based accounting system, the agency must adjust its annual data to report on an accrual basis. When generating financial statements for the required audit review, the agency should produce a second schedule for the transit services that reports expenses and revenues on an accrual basis.

Fully Allocated Costs

Reporters are required to report “fully allocated costs,” meaning both direct and indirect costs. This means that if the transit agency benefits from the provision of indirect costs, the agency must have an indirect cost allocation plan (or use the de minimis rate; see Chapter 4 for more details).

Additionally, if a transit agency operates various modes of service, those modes may share both organizational direct and indirect costs. For example, both fixed-route and demand-response modes may operate out of the same facility and may benefit from the same administrative support—the general manager and other administrative personnel. The NTD requires that the agency adopt appropriate cost allocation techniques to equitably distribute these shared costs to the respective modes.⁵

This type of cost allocation is typically performed using service-based criteria. Common methodologies range from easy to difficult depending on the number of services and costs included. Due to the complexity of this subject matter, detailed information on cost allocation is beyond the scope of this manual but is addressed in other National RTAP resources.

Funding Sources

Transit agencies must report operating and capital expenses based on the source of funds. The NTD identifies the four major source categories:

- Directly generated funds
- Local government sources of funds
- State government sources of funds
- Federal government sources of funds

Directly Generated Funds. This category includes revenues derived from non-governmental sources. The most common example is fare revenue.

Passenger fares do not include subsidies or passenger fare assistance from local or state governments to provide a reduced or free fare to certain subsets of the population.

Other sources of funds in this category include:

- Revenues earned from contracted services
- Parking revenues
- Lease of space in transit facilities (e.g., concessions at an intermodal facility)
- Advertising revenue
- Investment earnings
- Donations (other than those collected on-board vehicles and counted as fares)

Local Government Sources. This category includes funds appropriated from a local government’s general fund and any specific dedicated funding source that may be established to support public transportation. While not common in rural transit operations (unlike urban counterparts), some communities have established dedicated tax sources to support rural transit.

State Government Sources. This category includes:

- State operating assistance
- State participation in a portion of the local matching share for capital purchases
- Fare assistance to meet the difference between full adult fares and special reduced fares for persons with disabilities, senior citizens, students, and other special reduced fare riders
- Special state demonstration project funding

Federal Government Sources. This category includes all funding from any FTA program, such as Section 5311 (including Section 5311(f) and the Tribal Transit Program), Section 5310, Section 5339, and others. Even though a state DOT administers these programs on behalf of FTA, these revenues should be classified as federal government, not state government, sources.

Special Considerations

As this chapter is not meant to be a comprehensive NTD guide, users should consult the NTD manual or the state DOT if there are questions about the NTD data reporting issues. Documentation can be found at:

<https://www.transit.dot.gov/ntd/manuals>

Three specific topics are discussed here due to the applicability to rural reporters.

Pass-Through Funds

As discussed previously, many states award funds to a public agency (subrecipient) that, in turn, passes funds through to a lower-tier subrecipient, such as a nonprofit agency, to deliver the service.

Subrecipients in this scenario do not report pass-through funds that they provide to other agencies on the annual NTD report. The agency that ultimately receives the pass-through funds and benefits from the government assistance reports the funding. Agencies that are primary subrecipients only report funds to the NTD that relate to services directly operated or purchased by their organization.

Contributions/In-Kind Services

Many rural transit agencies rely on in-kind services to meet some or all the local matching share of an FTA grant. These types of contributions may include the provision of office space by a local governmental entity or the ability to use fuel provided by a county or municipal fuel depot. When a transit program receives such contributions, the value of the contribution should be recorded based on the entity that provided the contribution. Thus, the recipient of this contribution would report a local government's contribution of office space as Local Government Revenue under NTD.

Expenses

NTD requirements vary widely for the reporting of operating expenses, with full reporters required to provide detailed breakdowns by object of expenditure and by FTA function code. The FTA function codes are:

- Vehicle Operations
- Vehicle Maintenance
- Facility Maintenance
- General Administration

The Uniform System of Accounts (USOA) outlines these functions. For more information, please see the USOA guide available on the NTD website.

For rural and tribal reporters, the reporting requirements are less complex. Only total operating expenses must be reported. This typically avoids a complex process of converting the agency's chart of accounts to the account titles and codes used in the USOA. However, rural transit agencies may find it useful to use function codes to segregate data for analyzing the cost of providing transit services.

Function Codes

While NTD does not require rural reporters to use function codes, these categorizations of transit operating expenses can prove very useful in segregating data for subsequent use by management in the evaluation of transit operations.

Service Data

Data are reported on services supplied and services consumed.

Services Supplied

For rural reporters, there are two key elements that must be reported in terms of services supplied:

- Revenue Vehicle Miles (RVM)
- Revenue Vehicle Hours (RVH)

Both measures exclude the miles and hours related to deadhead time, operator training, and maintenance testing.

Agencies that operate demand-response (DR) service should ensure that they are properly counting deadhead miles and hours, as industry experience suggests that some agencies improperly report this measure. NTD policy states:

For DR service, revenue time includes all travel time from the point of the first passenger pick-up to the last passenger drop-off, as long as the vehicle does not return to the dispatching point.⁶

Deadhead miles and hours include:

- The garage to the dispatching point
- The dispatching point to the first passenger pickup
- The last passenger drop-off to the dispatching point
- The last passenger drop-off to the garage
- The dispatching point to the garage

Services Consumed

Agencies must report the number of regular unlinked passenger trips (UPT) by mode. This includes service operated as part of the normal transit schedule. Complementary ADA paratransit trips are regular unlinked passenger trips. Similarly, bus, demand response, commuter bus, and vanpool services are counted as regular trips.

The NTD segregates regular unlinked passenger trips from sponsored unlinked passenger trips. A sponsored unlinked passenger trip is public transportation that is paid for, in whole or in part, directly by a third party. Typically, transit providers would provide such service under the terms of a purchase of service agreement arising from the locally developed Coordinated Human Services Transportation Plan. Common sponsors include Medicaid, Veterans Affairs (VA), sheltered workshops, the Arc, Assisted Living Centers, and Head Start programs.

NTD notes that sponsored unlinked passenger trips are typically only reported for the demand-response modes. When clients of a human service ride fixed-route modes for example, the fare from a pre-paid pass or other media is counted under Agency Paid Fares and the trip is counted as a regular unlinked passenger trip.

Full reporters have additional responsibilities for providing other information on services consumed. Consult the appropriate NTD manual for details.

Asset and Resource Information

Rural transit agencies are asked to report vehicle fleet information by type of vehicle. Consult the NTD manual for the definitions of various vehicle types that are presented in a drop-down menu on the data entry screen.

Data items to collect include:

- Total revenue vehicles in the fleet
- Total revenue vehicles, by type
- Vehicle characteristics, such as:
 - Vehicle length
 - Seating capacity
 - Year of manufacture
 - ADA accessibility
 - Owned or leased

Facilities used to support public transportation are also included in this area of data collection. Four categories are defined:

⁶ NTD 2019 Policy Manual, page 121.

- Owned by service provider
- Owned by public agency for service provider
- Leased by public agency for service provider
- Leased by service provider

Agencies will also report whether volunteer drivers are used in the delivery of public transportation services and whether any personal vehicles are used.

Reporting Deadlines

Agency NTD reporting deadlines are based on when the reporting entity’s fiscal year ends (Exhibit 9.5).

Exhibit 9.5. NTD Reporting Deadlines

Fiscal Year End	Report Due	Closeout
Urban or Rural Reporter		
June 30	October 31	March 15
September 30	January 31	May 15
December 31	April 30	July 15

Source: NTD 2019 Policy Manual, page 18.

States submit NTD reports on behalf of Section 5311 recipients. The NTD will permit states to submit data according to a subrecipient’s fiscal year if the fiscal year covers a consecutive, 12-month period, and ends no later than December 31 of the current NTD report year. In these cases, the subrecipients must be able to meet state and NTD reporting deadlines.

Full reporters (larger urban systems) have monthly reporting requirements as well. Most readers of this manual will only report annually.

Other Critical Requirements

Failure to Report

All required reporters must submit their NTD reports on-time; failure to so could result in notification to the FTA Regional Administrator.

Accurate Data

Because NTD data are used, in part, to allocate FTA funding, considerable efforts are used to ensure that submitted data are both accurate and complete.

As any reporter is likely to attest, if any data vary substantially from previous submissions or are out of the typical range of other NTD data, the NTD office will notify the agency and ask about the validity of the data. NTD imposes specific data collection and validation techniques; failure to follow these methods will bring about a response from the NTD.

Certifications of Submitted Data

As shown in Exhibit 9.6, for some reporters, the submission of NTD data must be certified by the Chief Executive Officer (CEO) and, in some cases, by the transit agency’s independent auditor. For Section 5311 and Tribal Transit reporters, this requirement does not apply; certification of the data is not required. While certification is not required, the accuracy provisions of the submissions discussed above still apply.

Exhibit 9.6. NTD Certification Requirements, by Reporter Type

Reporter Type	Certification Requirement
Full Reporter	CEO and Independent Auditor
Reduced Reporter	CEO
State DOT	N/A
Rural Report (Subrecipient)	N/A
Tribal Organization	N/A

Source: NTD 2019 Policy Manual, pages 23-24.

Chapter Summary

Congress established the NTD program to collect financial, operating, and asset information about transit agencies and the public transit services they provide. The primary purpose of the NTD data is to apportion funds under the FTA Section 5307 Urban Formula Program.

Generally, each state is responsible for submitting all Section 5311 reports. The state DOT or other designated agency must submit individual reports for each subrecipient. At the state's option, a subrecipient sends a report to the state on a monthly, quarterly, or annual basis. A state DOT may authorize an individual subrecipient to enter data into the NTD internet reporting system as a self-reporting subrecipient; however, state DOTs are ultimately responsible for submitting and ensuring the accuracy of the completed state report.

Recipients of the Tribal Transit Program funds (under Section 5311) are obligated to report to the NTD. FTA also encourages tribes that operate public transportation, but do not participate in the Tribal Transit Program, to report to the NTD on a voluntary basis. By reporting voluntarily, tribes qualify for inclusion in future Tribal Transit Program apportionments.

Entities that only receive financial assistance under Section 5310 are not required to report to the NTD.

For rural reporters, the data reported for services supplied include revenue vehicle miles and revenue vehicle hours. Both measures exclude the miles and hours related to deadhead time, operator training, and maintenance testing. Agencies that operate DR service should ensure that they are properly counting deadhead miles and hours, as industry experience suggests that some agencies improperly report this measure. The data reported as services consumed are regular unlinked passenger trips and sponsored unlinked passenger trips. A sponsored unlinked passenger trip is public transportation that is paid for, in whole or in part, directly by a third party. Typically, transit providers would provide such service under the terms of a purchase of service agreement.

Rural NTD reporters also report financial data. Rural transit agencies must report operating and capital expenses. Revenues are reported according to the source of funds: funds directly generated by the transit agency, local government funds, state government funds, and federal government funds.

Notes

CHAPTER 9 QUIZ

1. FTA requires all Section 5311 and Section 5310 subrecipients to report under the NTD.

- True False

2. Charter services provided under the exceptions in 49 CFR § 604 are not included in NTD reporting.

- True False

3. Recipients of Tribal Transit Program funds do not have to report under the NTD.

- True False

4. Transit systems that receive Section 5307 funding and operate 30 or more vehicles are full reporters under the NTD.

- True False

5. If a transit agency receives both Section 5307 and Section 5311 funding, two reports must be filed.

- True False

6. The service area for a fixed-route transit is reported according the political boundaries of the entity that supports the transit program.

- True False

7. All NTD data must be reported by type of service, either “directly operated” or “purchased transportation.”

- True False

8. All NTD data must be reported by mode of service.

- True False

9. Revenues derived from advertising would typically be reported under directly generated revenue.

- True False

10. If a governmental entity receives Section 5311 funds from the state and, in turn, passes these funds through to a nonprofit agency to operate the rural transit program, the governmental entity does not have to file an NTD report.

- True False

11. The value of in-kind or contributed services to the transit agency does not have to be reported under the NTD.

- True False

12. Rural transit agencies must report Total Vehicle Hours and Total Vehicle Miles under the NTD.

- True False

13. Section 5311(f) funds that support part of an intercity route only report unlinked passenger trips and revenue vehicle miles for that section of the route that is supported with federal funds.

- True False

14. Financial data submitted to NTD will accept reports based on either the cash or accrual basis of accounting.

- True False

Notes

ADDITIONAL RESOURCES

- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National Transit Database (NTD) Policy Manual. The latest version is available at NTD's website: <https://www.transit.dot.gov/ntd/manuals>.
- NTD Presentations and Webinars. Available at <https://www.transit.dot.gov/ntd/presentations-and-webinars>.
- Texas A&M Transportation Institute Making Dollars and Sense of Transit Finance. Available at <https://groups.tti.tamu.edu/transit-mobility/resources/making-dollars-and-sense-of-transit-finance/>.

Notes

CHAPTER 10: AUDIT

By failing to protect your organization, you can expect to be a victim of fraud at some point in the future and become a statistic in our next study.

- Association of Certified Fraud Examiners

A single audit is intended to provide a cost-effective audit for NFEs in that one audit is conducted in lieu of multiple audits of individual programs.

- U.S. Office of Management and Budget

Goals of this Chapter

An independent review of the organization's financial records can instill the public's confidence in the management of the organization and emphasize good custodianship of federal grant funds. A transit agency that expends \$750,000 or more during the agency's fiscal year in federal awards must have a single or program-specific audit conducted for that year.

This chapter is designed to:

- Define the requirements that dictate the preparation of a single audit
- Understand what must be counted toward the audit threshold
- Review the responsibilities of the auditee in the single audit process

Basic Audit Requirement

Any non-federal entity (NFE) that expends \$750,000 or more in Federal awards during the organization's fiscal year must have a single or program-specific audit conducted for that year, in accordance with the provisions of the U.S. Office of Management and Budget (OMB)'s Super Circular at 2 CFR § 200.514.

Several points are relevant to the determination of whether an NFE requires a single audit:

- The entity must account for all federal funds, not just those received from the FTA.
- The entity must document receipt of federal funds based on the entity's fiscal year (which may differ from any grant period of performance).
- Only the federal funds received as a recipient or subrecipient count in the audit determination, not those received as a contractor.

The last bullet echoes a point made earlier in this manual: the NFE may simultaneously be a recipient, a subrecipient, and a contractor. In determining status, the organization should refer to 2 CFR § 200.330 for guidance.

The entity must realize that it is the substance of the award that determines how it should be treated for audit purposes, even though the pass-through entity or the NFE receiving the award may call it by a different name.

For example, if a pass-through entity makes an award that it calls a contract, but which meets the criteria under 2 CFR § 200.330 to be a subaward to a subrecipient, the NFE must include the contract's federal funds in the audit, regardless of the name used by the pass-through entity to refer to the award agreement.¹

Likewise, any federal award that meets the criteria under 2 CFR § 200.330 that would classify the NFE as a contractor, whether the pass-through entity providing the funds calls the NFE a subrecipient, the NFE must comply with the provisions of the Super Circular relevant to a contractor. The substance of the relationship is more important than the form of the agreement.

Best Practice in Grants Management

In some cases, it may be difficult to ascertain whether the agreement is a subaward or a contract. To assist NFEs, the Association of Governmental Accountants has prepared a "Recipient Checklist for Determining If the Entity Receiving Funds has a Contractor or Subrecipient Relationship," which can be downloaded at:

https://www.agacgfm.org/AGA/Intergovernmental/documents/subcontractor_checklist.pdf

In determining the amount of federal funds received during the fiscal year, the NFE must include:

- Grant awards
- Federal loans and loan guarantees
- Federally donated non-cash assistance (such as property or commodities)

The \$750,000 cited in the Super Circular represents an increase from the previous standard of \$500,000. The new threshold was applicable to an organization's fiscal year that began on or after December 26, 2014.

What Is a Single Audit?

The concept of a single audit is based on the Single Audit Act of 1984, which created a uniform framework for audit of states, local governments, and Indian tribal organizations. Prior to this time, each federal agency was responsible for ensuring that its individual programs were audited, leading to entities being audited multiple times in a single fiscal year. The law was subsequently amended to include nonprofit agencies as well.

The purpose of the act was to ensure that those organizations receiving substantial federal funds use the funds in compliance with the federal government's funding requirements. The act refers to a single audit because one of the objectives of the law is to replace the need for the federal government to audit the same non-governmental organization multiple times.

¹ See 2 CFR § 200.23-2 in OMB's Frequently Asked Questions, Updated for the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, updated July 2017.

There are various elements of a single audit, including the following:

- **Review of financial statements** – the auditor must determine whether the financial statements prepared by the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles (GAAPs).
- **Internal controls** – the auditor reviews the internal controls over the federal programs based upon the guidance in various internal control guidebooks.
- **Compliance** – the auditor determines whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs. The auditor uses a compliance supplement issued by the federal awarding agency.

FTA requires that states ensure that audits are conducted for all subrecipients that expend \$750,000 or more in federal awards in the NFE's fiscal year.

Program-Specific Audits

Lesser known is the program specific audit. This type of audit is noted in the basic audit requirements. A program-specific audit generally applies to those NFEs that only receive federal funding under **one** program **and** the terms and conditions of the federal award **do not** require a financial statement audit of the auditee. If these circumstances exist, the federal agency (or pass-through entity) may elect to have a program-specific audit.

Organizations that Expend Less than the Audit Threshold

An organization that expends less than \$750,000 in federal awards during the NFE's fiscal year is exempt from federal audit requirements for that year. However, records must be available for review or audit upon request by appropriate officials of the federal agency, pass-through entity, and the Government Accountability Office (GAO).

Other Audits

Generally, when an NFE prepares an audit pursuant to the Super Circular, this satisfies all requirements of the federal government; a federal agency must rely upon and use that information.

This provision notwithstanding, a federal agency, Inspectors General, or GAO may conduct or arrange for additional audits that may be necessary to carry out its responsibilities under federal statute or regulation.

Any additional audits must be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed, by other auditors.² If additional audit work is required, the Super Circular stipulates that the federal agency requesting the audit arrange for funding of the audit or otherwise pay for the costs of such audits.

Frequency of Audits

Audits required by the Super Circular must be performed annually.³ If the organization does not meet the audit threshold, it is a best practice for the organization to use a Certified Public Accountant to audit the financial statements of the organization on an annual basis.

Responsibilities of the Auditee in Preparation for the Audit

The organization subject to audit is responsible for various aspects of the audit process, including the following elements:

- **Procurement.** The auditee must procure or otherwise arrange for the audit in accordance with 2 CFR § 200.509 and ensure that the audit is properly performed and submitted when due in accordance with 2 CFR § 200.512 regarding report submission. Procurement of audit services should be conducted consistent with the organization's written procurement policies and should be similar to that used to hire other professional and technical services.

² See 200 CFR § 200.503(b).

³ There are some provisions that grandfather entities that are permitted to prepare audits less frequently. See 200 CFR § 200.504(a) – (b) for these limited provisions.

- **Preparation of Financial Statements.** The organization subject to audit—not the auditors—has the responsibility to prepare appropriate financial statements, including:
 - The Schedule of Expenditures of Federal Awards (SEFA)
 - The response of management outlining the proposed corrective actions to any audit findings
- **Access to Personnel and Records.** The entity must ensure that the audit firm has access to personnel, accounting records, books, supporting documentation, and other information as needed to perform the audit.

Audit Firm Procurement

As audits are done on an organization-wide basis, and many rural transit programs are a part of local government or multipurpose nonprofit entities, the transportation program is not expected to lead the entity's efforts to secure audit services. However, if the organization intends to use FTA funds to pay any portion of the audit fees, the entity should ensure that federal requirements are used in the procurement, appropriate to the organizational status of the auditee (e.g., local government or nonprofit organization).

In addition to the regular procurement practices of the organization, the Super Circular imposes additional requirements unique to the solicitation for audit services.⁴ The auditee must:

- Prepare clear objectives and delineate the scope of work of the auditor
- Require the prospective audit firms to submit a copy of the company's peer review report required under generally accepted government auditing standards
- Establish and delineate selection criteria that must include:
 - Responsiveness to the request for proposal
 - Relevant experience

⁴ 2 CFR § 200.509(a)

⁵ 2 CFR §200.302(b)

- Availability of staff with professional qualifications and technical abilities to perform the scope of work
 - Results of the peer review
 - Price
- Make positive efforts to utilize small businesses, minority owned firms, and women's business enterprises, as applicable.

Limitations in the Auditor's Scope of Work

If your organization claimed more than \$1 million in indirect costs in the previous fiscal year, the entity is prohibited from using the same firm to prepare an indirect cost allocation plan and perform the annual single audit.

- 2 CFR § 200 509(b)

Financial Statements

The auditee is responsible for preparation of financial statements; this is not a function that should be delegated to the auditor. As noted in Chapter 3, the Super Circular requires that the financial management system of each recipient or subrecipient of federal funds must be capable of seven (7) key functions, including the ability to generate financial results.⁵

If the entity asks the audit firm to prepare financial statements, the auditor should render a finding relative to the lack of capacity to generate its own financial statements.

The financial statements must reflect:

- Financial position of the entity
- Results of changes in operations or changes in net assets
- Cash flows

Schedule of Expenditures of Federal Awards

The auditee is also responsible for preparing the SEFA. While some variation in presentation is permitted, all SEFAs must include:

- A list of individual federal programs, organized by federal agency, of all grants/grant funds expended during the audit period. When a program is in a cluster of programs, the auditee must provide the cluster name.⁶
- For grant funds received as a subrecipient, the auditee must list the name of the pass-through agency and an identifying number associated with the award (typically a grant number).
- The total amount of federal funds expended for each individual federal program, listed by Catalog of Federal Domestic Assistance (CFDA) number.
- The total amount of federal funds provided to the subrecipient.
- The total amounts expended for loan or loan guarantee programs.

Additionally, the auditee should prepare notes to accompany the SEFA that address significant accounting policies used in preparing the schedule and must state whether or not the entity elected to use the de minimis rate (see Chapter 4 for a discussion of the de minimis indirect cost rate).

Preparation of Prior Year Findings

The auditee must also prepare a summary schedule of prior audit findings. Items that must be addressed include:

- The audit reference number (example: 2017-01) assigned by auditor
- A summary of the finding or the name of the finding used by the auditor
- The fiscal year in which the finding was entered
- The status of the finding

- If only partially corrected, the summary schedule must describe the reasons for the finding's recurrence and planned corrective action, and any partial corrective action taken

If a finding from a previous audit (e.g., two or more years ago) remains open, the auditee must report these findings as well. Thus, this schedule may include multiple years in the summary.

When audit findings are fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

Audit Follow-Up

This requirement is often overlooked, with the auditee merely indicating in management's response to a finding that the entity concurs with the audit finding. However, the entity is required to do much more.

The auditee should formally respond to any audit finding rendered at the completion of the audit, presenting a corrective action plan. The corrective action plan should be developed for each finding and must include:

- The name(s) of the contact person(s) responsible for corrective action
- The planned corrective action to correct the finding
- The anticipated completion date

When corrective action taken is significantly different from what was previously reported in a corrective action plan, the auditee must explain the reasons why the original strategy was not implemented.

Disputing an Audit Finding

On rare occasions, the auditee may believe that the audit finding has been issued in error. In such instances, the organization may dispute the finding. The place to dispute the finding should be in the corrective action plan. The corrective action plan must include an explanation and specific reasons.

⁶ A cluster of programs means a grouping of closely related programs that share common compliance requirements. A cluster of programs must be considered as one program for determining major programs, as described in 2 CFR § 200.518. The Section 5311 program is not in a cluster.

Audit Report Submission

Deadline

Generally, for each entity subject to the preparation of a single audit, an audit report must be completed and submitted within nine months following the end of the audit period.

Thus, if an entity operated on the following fiscal year periods, the deadline for submission is indicated in Exhibit 10.1.

Exhibit 10.1. Audit Deadlines: Typical Fiscal Years

Fiscal Year Ended	Audit Due By
June 30	March 31
September 30	June 30
December 31	September 31

If the audit is prepared sooner than nine months, the report must be submitted within 30 days after receipt.

The audit report, unless otherwise restricted by statute or regulations, is a public document and must be made available to the public upon request.

Federal Audit Clearinghouse

The auditee is required to submit some elements of the audit to the Federal Audit Clearinghouse (FAC) using form SF-SAC.⁷

A senior level representative of the auditee (e.g., CFO, CEO) must sign a statement to be included as part of the data collection that says that the auditee complied with the requirements of 2 CFR §200.500.

This submission is done electronically.

Role of the Cognizant Agency for Audit

An NFE spending more than \$50 million a year in federal awards must have a cognizant agency for audit. In these cases, the designated cognizant agency for audit must be the federal awarding agency that provides the predominant amount of direct funding to the NFE unless OMB designates a specific cognizant agency for audit.

Recognizing that the amount of federal financial assistance may vary from year-to-year—which could lead to inconsistency in oversight for the grant recipient—OMB has adopted a five-year cycle for re-assessing cognizance:

To provide for continuity of cognizance, the determination of the predominant amount of direct funding must be based upon direct federal awards expended in the non-federal entity's fiscal years ending in 2009, 2014, 2019 and every fifth year thereafter. For example, audit cognizance for periods ending in 2011 through 2015 will be determined based on federal awards expended in 2009.⁸

Similarly, an organization's federal awards in 2019 will dictate audit cognizance for the period 2021 through 2025.

The list of responsibilities of the cognizant agency is varied. Of specific interests to the auditee are these responsibilities:

- Provide technical audit advice and liaison assistance
- Obtain or conduct quality control reviews on selected audits made by non-federal auditors and provide the results to other interested organizations
- Advise the auditor, federal awarding agencies, and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee must work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit must notify the auditor, the auditee, and applicable federal awarding agencies and pass-through entities of the facts and

⁷ The current form is available at: https://harvester.census.gov/facides/Files/2015_2018%20Checklist%20Instructions%20and%20Form.pdf

⁸ See 2 CFR § 200.513(a)(2).

make recommendations for follow-up action. Major inadequacies or repetitive substandard performance by auditors must be referred to appropriate state licensing agencies and professional bodies for disciplinary action

- Coordinate a management decision for crosscutting audit findings (as defined in 2 CFR § 200.30) that affect the federal programs of more than one agency, when requested by any federal awarding agency whose awards are included in the audit finding of the auditee

Role of the Awarding Agency

While the role of the cognizant agency for audit is substantial, the awarding agency also maintains a role in the audit process. The responsibilities of the awarding agency include the following:

- Ensure that audits are completed and reports are received in a timely manner
- Provide technical advice and counsel to auditees and auditors as requested
- Follow-up on audit findings to ensure that the recipient takes appropriate and timely corrective action, including:
 - Issuing a management decision, as necessary
 - Monitoring the recipient to ensure that audit remedies include the appropriate and timely corrective action(s)
 - Using cooperative audit resolution mechanisms to improve federal program outcomes through better audit resolution, follow-up, and corrective action

Each awarding agency is responsible for providing OMB with annual updates to the audit compliance supplement (used by audit firms to assess compliance).

Audit Findings

In the course of an audit report, the auditors will issue several findings and/or reports; the first issuance will typically be an opinion on the organization's financial statements.

Opinion on the Financial Statements

This finding represents the auditor's opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. Audit reports also include an opinion as to whether there is a reasonable assurance that the financial statements are free from material misstatements.

There are different types of opinions rendered in this regard and there is significant variance between the different types:

Unmodified Opinion

In this opinion, the auditor states that financial statements are clearly presented and accurate. This is the best outcome for the auditee.

Qualified Opinion

In this case, the auditor has found at least one matter that requires attention, but otherwise the financial statements are not inaccurate.

Adverse Opinion

In this opinion, the auditor concludes that the organization's financial statements are not prepared consistent with generally accepted accounting principles. Auditors, before issuing adverse opinions, should work with the organization to provide advice on how to remedy such problems. If an adverse opinion is issued, specific reasons or problems should be cited.

Disclaimer of Opinion

This is the worst possible outcome for the auditee, as the auditor concludes that audit evidence is insufficient to base an opinion. In essence, this does not represent an opinion at all, as the auditor does not have enough information to render an opinion.

Exhibit 10.2 provides an illustration of the types of audit opinions. All recipients of federal funds should strive for an unmodified opinion. Adverse opinions or having the auditor issue a disclaimer of opinion will likely have severe grant consequences, jeopardizing receipt of future grant funds.

Unmodified Opinion

The auditor concludes that the financial statements of a given entity are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Multiple Opinions

The auditor expresses different opinions on various aspects of the financial statements.

Qualified Opinion

The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements, or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects of the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

After having obtained enough good audit evidence, the auditor concludes that misstatements, individually or when grouped with other misstatements, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Significant Deficiencies and Material Weaknesses in Internal Control

The American Institute of Certified Public Accountants (AICPA) defines internal control as a process:

...effected by those charged with governance, management, and other personnel—designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

As noted above, there are two distinct concepts in this area of the report: a significant deficiency or a material weakness. Non-accounting professionals may not be clear on the distinction between these two terms.

A **deficiency** in internal control exists when the *design* or *operation* of a control does not allow management or employees to prevent, or detect and correct, misstatements on a timely basis in the normal course of performing their assigned functions.

A deficiency in design exists when:

- A control necessary to meet the control objective is missing, and/or
- An existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

A deficiency in operation exists when:

- A properly designed control does not operate as designed, and/or
- The person performing the control does not possess the necessary authority or competence to perform the control effectively.

A **material weakness** is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. While this is common language in the accounting industry, this may sound confusing to the typical transit manager. This concept is used when the auditor has recognized the

lack of written procedures and policies that results in a lack of checks and balances in the execution of various financial management tasks. These deficiencies could lead to errors that may not be readily detected with existing oversight procedures. Material weaknesses are usually addressed by the re-assessment and re-assignment of duties, adoption of new policies and practices, and/or commitment of a greater level of human resources to the finance department.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.⁹

Noncompliance with the Provisions of Federal Awards

Based on guidance articulated in a compliance supplement issued by federal agencies, the auditor will follow various tests of compliance to assure that the auditee is meeting the required terms and conditions of the grant award.

An auditor will review only those federal grant programs received by the auditee that are deemed to be major. The auditor will conduct various tests and go through a prescribed procedure to determine what programs are deemed to be major. The auditor will identify those programs deemed as major in the report.

Questioned Costs

Questioned costs are those transactions identified by the auditors that do not comply with federal cost principles, the terms and conditions of the grant agreement, or are not supported by adequate documentation.

Auditors are obligated to report known questioned costs that are greater than \$25,000 for a major program. Further, the auditor must assess whether the impact of questioned costs extends beyond just those identified in the audit.

The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a major program. In reporting questioned costs, the auditor must provide information to back up their judgement of the prevalence and consequences of the questioned costs.¹⁰

⁹ *Communications about Control Deficiencies in an Audit of Financial Statements*, Public Company Accounting Oversight Board, AS 1305.

¹⁰ See 2 CFR § 200.516(a)(3).

Questioned Cost

Questioned cost means a cost that is questioned by the auditor because of an audit finding: (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

-2 CFR § 200.84

If an auditor determines that there are questioned costs, the common response from FTA and the state is to require repayment of those costs. This can place enormous cash burdens on smaller agencies.

Management Decisions

There may be instances when the auditee disagrees with the findings contained in the audit. The basis for this disagreement should be provided in management's response to the audit report. In these cases, a management decision must be made to sustain the finding or other appropriate action. The Super Circular defines a management decision as:

*The evaluation by the federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.*¹¹

The Super Circular permits pass-through entities to evaluate and arrive at a management decision on an audit finding.

The management decision must clearly state:

- Whether or not the audit finding is sustained
- The reasons for the decision
- The expected auditee action to repay the disallowed costs, make financial adjustments, or take other action

¹¹ See 2 CFR § 200.66.

- The appeals process available to the auditee

If the auditee has not completed corrective action, a timetable for follow-up should be given.

Chapter Summary

Audits can be very daunting for most agencies and proper preparation for the audit can be time-consuming for the organization. However, having independent review of the organization's financial records can instill the public's confidence in the management of the organization and emphasize good custodianship of federal grant funds.

An NFE that expends \$750,000 or more during the agency's fiscal year in federal awards must have a single or program-specific audit conducted for that year. Only federal funds received as a recipient or subrecipient, not those received as a contractor, count in the audit determination.

The recipient or subrecipient has many responsibilities in preparing for an audit, including procurement of audit services, the preparation of financial statements, ensuring the auditor has access to records and personnel in the conduct of the audit, preparing the Schedule of Expenditure of Federal Awards, preparation of prior year audit findings, and audit follow-up.

An NFE spending more than \$50 million a year in federal awards must have a cognizant agency for audit. Federal oversight of the audit process is the responsibility of the cognizant agency for audit, along with the federal agency that made the grant award.

Federal agencies are now required to evaluate risk in making grant awards; audit performance is an evaluation factor. The auditee should take appropriate action on audit findings, including preparation of corrective action plans and documentation of the final outcomes of those plans.

CHAPTER 10 QUIZ

1. An agency must receive federal financial assistance in excess of \$750,000 for three consecutive years prior to being subject to the single audit requirements of the Super Circular.

- True False

2. Federal revenues received as a contractor, not as a recipient/subrecipient, are not counted toward the \$750,000 audit threshold.

- True False

3. Federal loans and loan guarantees do not have to be counted toward the \$750,000 audit threshold.

- True False

4. When a federal grant recipient or subrecipient lacks the technical capacity to prepare financial statements, the organization should task its auditor to prepare the statements.

- True False

5. If a federal grant recipient expends more than \$1,000,000 in indirect costs under its federal awards, it cannot use the same firm to prepare its indirect cost allocation plan and to conduct its single audit.

- True False

6. The SEFA only needs to define those programs deemed as major.

- True False

7. The SEFA does not have to list federal funds received as a subrecipient.

- True False

8. The audit firm is responsible for preparing a summary of prior year audit findings.

- True False

9. All audit findings must be addressed; however, it is optional for the auditee to prepare a corrective action plan.

- True False

10. In lieu of a corrective action plan to an audit finding, the auditee need only indicate that the organization concurs with the audit finding.

- True False

11. Audits must be completed and submitted to the Federal Audit Clearinghouse on the earlier of either nine months after the close of the fiscal year or 30 days after completion of the audit.

- True False

12. An unmodified opinion means that the financial statements of the organization are clearly presented and prepared in accordance with generally accepted accounting principles.

- True False

13. In the audit, the auditors will evaluate program compliance only of major programs.

- True False

14. In a pass-through arrangement, the pass-through entity may issue a management decision on an audit finding.

- True False

Notes

ADDITIONAL RESOURCES

- Electronic Code of Federal Regulations (e-CFR). Available at <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>.
- FTA Circular 5010.1E Award Management Requirements. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9040.1G Formula Grants for Rural Areas: Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Circular 9070.1G Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions. Available at <https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>.
- FTA Comprehensive Review Guide (updated each fiscal year). Available at <https://www.transit.dot.gov/regulations-and-guidance/program-oversight/program-oversight>.
- National RTAP Transit Manager's Toolkit: Federal Regulations and Circulars. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Grant Compliance Requirements. Available at <https://www.nationalrtap.org/Toolkits/Transit-Managers-Toolkit/Welcome>.
- National RTAP Transit Manager's Toolkit: Budgeting and Finance 101. Available at the National RTAP website: <https://www.nationalrtap.org/Home>.
- Office of Inspector General, U.S. Department of Transportation Single Audits website. Available at <https://www.oig.dot.gov/oversight-areas/single-audits>.
- Public Company Accounting Oversight Board Auditing Standards. Available at <https://pcaobus.org/Standards/Auditing/Pages/default.aspx>.
- The Super Circular (2 CFR 200). Available at e-CFR: https://www.ecfr.gov/cgi-bin/text-idx?SID=0caafe2bb8ee119dc8835355594884cb&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

Notes

MODEL CHART OF ACCOUNTS

This is a model chart of accounts for rural and small urban transit providers that is based on the recently revised Uniform System of Accounts.¹

National RTAP has made some additions to the account structure to make the accounts more useful for the typical rural transit, particularly if the organization provides service under contract to a human service agency or elects not to adopt USOA function codes in their account structure. Other modifications are designed to more closely ensure compliance with requirements of 2 CFR § 200. Accounts in italics represent National RTAP additions.

This appendix consists of two parts:

- Structure – A sequential listing of all account numbers and titles
- Definitions – The definition of each account title

This presentation provides accounts for:

- Income
- Expenses
- Capital

For transit agencies that wish to adopt the USOA in its totality, National RTAP would recommend that the organization download a full copy of the USOA manual at:

https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/ntd/56681/uniform-system-accounts-usoa-effective-fy18_0.pdf

The USOA manual will provide additional information on Assets and Liabilities (not addressed in this manual). With this information, financial statements can be prepared based solely on the USOA structure.

In the sections that follow, where possible, National RTAP has embraced the USOA definition without change.

¹ Federal Transit Administration, *Uniform System of Accounts*, June 2016 (effective October 1, 2017).

Model Chart of Accounts – Structure

Income Accounts

4000 Income

4100 Directly Generated Funds

4110 Passenger Fares

4111	Passenger-Paid Fares
4111.01	Full Adult Fares
4111.02	Senior Citizen Fares
4111.03	Student Fares
4111.04	Child Fares
4111.05	Individual with Disabilities Fares
4111.06	Ferryboat Service Fares
4111.07	Vanpool Service Fares
4111.08	Handling Fees
4111.09	No-Show Fines
4111.99	Other Fares
4112	Organizational-Paid Fares
4112.01	State and Local Governments
4112.02	Reduced Fare Reimbursements
4112.03	Special Route Guarantees
4112.04	Human Service Agencies
4112.09	Other Organizational Paid Fares

4120 Park-and-Ride Parking Revenue

4130 Non-Public Transportation Revenues

4140 Auxiliary Transportation Funds

4141	Advertising Revenue
4142	Snack Bars and Newsstands
4149	Other Auxiliary Revenues

4150 Other Agency Revenues

4151	Sale of Maintenance Services
4152	Sales of Fuel
4153	Rental of Buildings and Other Property
4154	Investment Income
4155	Interest Income

- 4156 Donations
- 4159 Other Agency Revenues

4160 Revenues Accrued through a Purchased Transportation Agreement

- 4161 Other Public Transit Agencies
 - 4161.01 Public Transit Agency 1*
 - 4161.02 Public Transit Agency 2*
- 4162 Human Service Agencies
 - 4162.01 Human Service Agency 1*
 - 4162.02 Human Service Agency 2*

4170 Subsidy from Other Sectors of Operations

4180 Extraordinary and Special Items

4190 Total Recoveries

4200 Directly Generated Dedicated Funds

4210 Income Tax

4220 Sales Tax

4230 Property Tax

4240 Fuel Tax

4250 Other Taxes

4290 Other Dedicated Funds

4300 Local Government Funds

4310 General Revenues of the Local Government

4320 Local Government Funds Dedicated to Transit

- 4321 Income Tax
- 4322 Sales Tax
- 4323 Property Tax
- 4324 Fuel Tax
- 4325 Other Taxes
- 4329 Other Dedicated Funds

4400 State Government Funds

4410 General Revenues of the State Government

4420 State Government Funds Dedicated to Transit

4430 Extraordinary and Special Items

4500 Federal Funds

4510 Section 5311

- 4511 Operating Revenues
- 4512 Capital Revenues
- 4513 Revenues Spent on Operations as Capital

4520 Section 5310

- 4521 Operating Revenues
- 4522 Capital Revenues
- 4523 Revenues Spent on Operations as Capital

4530 Section 5307

- 4531 Operating Revenues
- 4532 Capital Revenues
- 4533 Revenues Spent on Operations as Capital

4540 Section 5339

4590 Other FTA Grant Awards

4600 Non-Added Revenues

4610 Contributed Services

4620 Voluntary Non-Exchange Transactions

4630 Sales and Disposal of Assets

4640 Transportation Development Credits

Expense Accounts

5000 Operating Expenses

5010 Labor

- 5011 Operators' Salaries and Wages
 - 5011.01 Regular Time*
 - 5011.02 Overtime*
 - 5011.03 Training Wages*
- 5012 Operators' Paid Absences
 - 5012.01 Sick Leave*
 - 5012.02 Vacation Leave*
 - 5012.03 Holiday Leave*
 - 5012.09 Other Leave*

- 5013 Other Salaries and Wages
 - 5013.01 *Other Operations Salaries and Wages – Regular*
 - 5013.02 *Other Operations Salaries and Wages – Overtime*
 - 5013.03 *Other Operations Training Wages*
 - 5013.04 *Administrative Salaries and Wages – Regular*
 - 5013.05 *Administrative Salaries and Wages – Overtime*
 - 5013.06 *Other Salaries and Wages*
- 5014 Other Paid Absences
 - 5014.01 *Other Operations Sick Leave*
 - 5014.02 *Other Operations Vacation Leave*
 - 5014.03 *Other Operations Holiday Leave*
 - 5014.04 *Administrative Sick Leave*
 - 5014.05 *Administrative Vacation Leave*
 - 5014.06 *Administrative Holiday Leave*
- 5015 Fringe Benefits
 - 5015.01 *Operator Employment Taxes*
 - 5015.02 *Other Operations Employment Taxes*
 - 5015.03 *Administrative Employment Taxes*
 - 5015.04 *Operator Health & Welfare Expenses*
 - 5015.05 *Other Operations Health & Welfare Expenses*
 - 5015.06 *Administrative Health & Welfare Expenses*
 - 5015.07 *Operator Retirement*
 - 5015.08 *Other Operations Retirement*
 - 5015.09 *Administrative Retirement*
 - 5015.10 *Other Fringe Benefits*

5020 Services

- 5021 Management Services
- 5022 Accounting/Adult
- 5023 Other Professional and Technical Services
- 5024 Drug & Alcohol Services/Medical Services
- 5025 Vehicle Maintenance Services
- 5026 Custodial Services
- 5027 Security Services
- 5028 Communications Services
- 5029 Other Services

5030 Materials and Supplies

- 5031 Fuel and Lubricants

- 5032 Tires and Tubes
- 5033 Vehicle Supplies & Materials
- 5033 Office Supplies
- 5034 Janitorial & Cleaning Supplies
- 5035 Educational & First Aid Supplies
- 5035 Facility Supplies
- 5039 Other Materials and Supplies

5040 Utilities

- 5041 Electricity
- 5042 Gas
- 5043 Heating Oil
- 5044 Water & Sewer
- 5045 Telephone
- 5046 Internet

5050 Casualty and Liability Costs (Insurance)

- 5051 Premiums for Physical Damage Insurance
- 5052 Premiums for Public Liability and Property Damage Insurance
- 5053 Payouts for Insured Public Liability and Property Damage Settlements
- 5054 Payouts for Uninsured Public Liability and Property Damage Settlements
- 5055 Provision for Uninsured Public Liability and Property Damage Settlements
- 5056 Premium Other Corporate Losses
- 5059 Other Corporate Insurance

5060 Taxes

5090 Miscellaneous Expenses

- 5091 Dues and Subscriptions
- 5092 Travel and Meetings
- 5099 Other Miscellaneous Expenses

5100 Purchased Transportation Expenses

- 5101 Purchased Transportation in Report
- 5102 Purchased Transportation Filing Separate Report

5200 Reconciling Items

5210 Interest Expenses

- 5211 Interest on Long-Term Debt Obligations
- 5211 Interest on Short-Term Debt Obligations

5220 Operating Lease Expenses

- 5230 Capital Leases**
- 5240 Related Parties Lease Agreements**
- 5250 Voluntary Non-Exchange Transactions**
- 5260 Depreciation**
- 5270 Amortization of Intangibles**
- 5280 Extraordinary and Special Items**
- 5290 Other Reconciling Items**

- 5910 ADA Related Reconciling Items**

Capital

- 6200 Passenger Stations**
- 6300 Administrative Buildings**
- 6400 Maintenance Buildings**
- 6500 Revenue Vehicles**
- 6600 Service Vehicles**
- 6700 Fare Collection Equipment**
- 6800 Communications/Information Systems**
- 6900 Other Capital Equipment**

Model Chart of Accounts – Definitions

INCOME

Transit agencies receive revenue, funds, subsidies, or other monies from a variety of sources. This section covers the various types of sources of funds, the definitions thereof and examples to help reporting agencies determine how and where to report these funds. The primary sources of agency funds are fares, other operating revenues (e.g., park-and-ride parking, advertising, concessions), subsidies, and other funds from the local, state and federal government. This section details these revenue object classes. In order to practice full cost accounting, transit agency must report all sources of funds, including local match funds.

Agencies report revenues according to the original source of funds.

Directly Generated Funds (4100)

Directly Generated Funds are funds that a transit agency earns from non-governmental sources. These revenues are generated by the transit agency.

Passenger Fares (4110)

This revenue object class includes revenues earned from carrying passengers. This object class applies equally to directly operated (DO) and purchased transportation (PT) services. Generally, fares are the amounts paid by the rider to use transit services, to include the base fare, zone premiums, express service premiums, extra cost transfers, and quantity purchase discounts applicable to the passenger's ride.

Agencies report the full amount of PT fare revenues regardless of whether the buyer or seller retains the revenue.

Passenger Paid Fares (4111)

This category includes:

1. Fares paid before service is provided (e.g., through the sale of media such as passes, tickets and tokens sold to passengers)
2. Directly at the point of service (e.g., fare box, turnstile)
3. After the service is provided (e.g., through weekly or monthly billing)

The USOA no longer requires passenger fares to be reported by fare category (e.g., senior half-fare); however, many transit agencies need this data to analyze transit usage or to comply with state requirements for state specialized transit funds. It is recommended that local agencies retain a level of detail that exceeds that required in the USOA.

Full Adult Fares (4111.01): Revenues earned by transporting passengers for the full adult fare.

Senior Citizen Fares (4111.02): Revenues earned by transporting passengers who pay a special, reduced fare because they are older than a prescribed age limit.

Student Fares (4111.03): Revenues earned by transporting passengers who pay a special, reduced fare because they are enrolled in an educational institution.

Child Fares (4111.04): Revenues earned from carrying passengers who pay a special, reduced fare because they are younger than a prescribed age limit.

Fares for Individuals with Disabilities (4111.05): Revenues earned from carrying passengers who pay a special, reduced fare because they are persons with disabilities.

Ferryboat Services (4111.06): Revenues earned from walk-on pedestrians, bicyclists, and public transportation vehicles passenger fares. For vehicles, the agency reports passenger fares for each occupant of the vehicle, including the driver. However, vehicle and bicycle ferriage fees are not included in passenger-paid fares, but are reported in Non-public Transportation Revenues (4130).

Vanpool Services (4111.07): For publicly sponsored vanpool (VP) services, passenger fares have unique provisions. For VP services, passenger fares include all fees and costs paid by the passengers. These costs often include fuel costs, maintenance expenses, lease payments, tolls and other out-of-pocket costs.

Handling Fees (4111.08): Revenues earned from charges for processing payment and issuing fare cards (e.g., an agency charges an initial start-up fee when issuing new cards, or charges extra fees for using one-time paper cards).

No-show Fines (4111.09): Revenues earned from fines for demand response passengers who do not show up for a scheduled pickup.

Other Fare (4111.99): Any other fare revenues not classified above.

Organization Paid Fares (4112)

Organization-paid fares are paid for by an organization rather than by the passenger. Organization-paid fares also include funds for rides given along special routes for which a beneficiary of the service may guarantee funds. Organization-paid fares may result from agreements between the transit provider and an agency or organization that pays a set amount in return for unlimited and/or reduced fare transit service for the persons covered by the agreement.

This category may or may not include services provided under contract to a state or local human service agency. If the transit agency elects to treat such revenues as fares, they should be reported under Account 4112. However, if the transit agency elects to treat the revenues as local match, the amounts should be reported under Object Class 4160.

If a transit agency earns revenues from multiple sources under this category, then the chart of accounts should be structured to identify each revenue source (e.g., 4112.01, 4112.02, etc.).

State and Local Governments (4112.01): Revenues earned by providing rides for employees of state and local government (e.g., fares for postal workers or police officers).

Reduced Fare Reimbursements (4112.02): Revenues earned by providing rides for its members or beneficiaries. A common example is a university paying a transit agency to permit students to ride free after showing their valid student identification cards.

Special Route Guarantees (4112.03): Amounts paid by organizations other than governments (e.g., industrial firms, shopping centers, public and private universities) to guarantee a minimum amount of funds for a bus route to provide or maintain services to a specific area, especially for the benefit of the paying organization.

Human Service Agencies (4112.04): Amounts paid by human service organizations to buy transit passes, tickets, tokens, etc. in bulk for use by their clients on the fixed route service.

Other Organizational Paid Fares (4112.09): Any other revenues earned under contractual arrangements not defined in the above categories.

Park and Ride Revenue (4120)

The agency earns park-and-ride parking revenue from parking fees paid by passengers who drive to park-and-ride facilities operated by the agency to use transit service.

Non-Public Transportation Revenues (4130)

This object class includes revenue for providing transportation services to private groups or entities or for carrying freight – in other words, performing transit activities that do not meet the definition of eligible public transportation and, therefore, cannot be subsidized with FTA financial assistance. This category includes profits made from authorized charter service.

Auxiliary Transportation Revenues (4140)

Auxiliary transportation funds are earned from activities related to the provision of transit service, but are not payments for transit service. Auxiliary funds result from business-type activities in which an agency earns supplemental revenues. For example, a transit agency is not in the advertising or concessions business, but it is able to earn additional funds by providing or leasing out these additional services to the public.

Advertising Revenues (4141)

Advertising revenues include funds earned from displaying advertising materials on transit system vehicles and property and includes agency media.

Concessions (4142)

Concessions are revenues earned from granting operating rights to businesses (e.g., newsstands, candy counters) on property and equipment maintained by the transit agency (e.g., stations, vehicles). This also includes revenues from vending machines available on property maintained by the transit agency for public use.

Other Auxiliary Revenues (4149)

The agency earns other auxiliary transportation revenues from auxiliary operations other than those specified above. This might include, but is not limited to merchandising, photo identification (ID) fees, locker rentals, movie licensing fees, naming rights, and fines for fare evasion or illegal parking.

Other Agency Revenues (4150)

This object class includes revenues earned from activities not associated with the provision of the transit agency's transit service. Other agency revenues do not include funds received from local, state, or federal governments. Like fares, the USOA does not require further definitions within this object.

Sales of Maintenance Services (4151)

Revenues earned from sales or performing maintenance services on property not owned or used by the transit agency.

Sales of Fuel (4152)

Revenues earned from sales of fuel.

Rental of Buildings and Other Property (4153)

Revenues earned from leasing transit system buildings (other than station concessions) and property to other organizations.

Investment Income (4154)

Revenues earned from investing in marketable securities and dividends received from state insurance pools. Investment income does not include earnings on capital grant funds advanced by the federal awarding agency; such earnings are to be credited to the same account as the capital grant itself.

Interest Income (4155)

Revenues earned by placing funds in an interest-bearing account.

Donations (4156)

Funds from donations and grants from private foundations.

Other Agency Revenues (4159)

Revenues that might include, but are not limited to: warranty claims, funds from lawsuits, Freedom of Information Act (FOIA) requests, revenue from vending machines available exclusively for employee use, administrative fees charged to other organizations, easement fees, air rights, and vandalism restitutions.

Revenues Accrued Through a Purchased Transportation Agreement (4160)

This object class includes revenue accrued by the transit agency as a seller of transportation services through purchased transportation agreements. If the transit agency provides service under contract to another public transit agency, those revenues should be reported here as well.

As discussed in Organization Paid Fares, if the transit agency proposes to use contract revenues derived from the provision of service under contract to a human service agency as local match, the revenues should be reported here.

The USOA does not require any further breakdown of revenues in this category. National RTAP, however, recommends that transit agencies separate contracts with other public transit agencies from those with human service agencies used as local match. As one source of revenues under this category may be used as local match, National RTAP recommends that transit agencies that use this provision of transit law segregate in their accounts revenues earned from other public transit agencies from those earned from human service organizations. Additionally, accounting will be enhanced if the transit agency uses the two-digit extension to separately account for revenues derived from each contracting entity (e.g., 4161.01, 4161.02, 4162.01, 4162.02, etc.).

Other Public Transit Agencies (4161)

Revenue accrued by the transit agency as a seller of transportation services through purchased transportation agreements to another public transit agency.

Human Service Agencies (4162)

Revenue accrued by the transit agency as a seller of transportation services through purchased transportation agreements to a human service organization.

Subsidy from Other Sectors of Operations (4170)

Occasionally, the transit operation is only one part of a larger transportation entity. Such transit agencies may receive subsidies from other sectors of operations within the larger transportation entity to help cover the cost of transit. This account will rarely be used by rural and small urban transit agencies.

Extraordinary and Special Items (4180)

Extraordinary items are events or transactions that are distinguished by their unusual nature and by the infrequency of their occurrence.

Examples of material extraordinary items include recoveries received for damages from a natural disaster, such as a hurricane or earthquake. Assets impaired by and recoveries received from these events are considered extraordinary because they are abnormal in occurrence and are not reasonably expected to recur in the foreseeable future

Total Recoveries (4190)

Total recoveries include proceeds recovered from insurance companies to indemnify the transit agency for insured acts that resulted in a liability for damage to transit personnel or property or damage to the person or property of others.

For example, the agency reports proceeds received from insurance companies for physical damage claims resulting from an accident as insurance recoveries. Total recoveries also include amounts recovered from others held liable to damage to the transit agency's property. While the agency reports full proceeds received from the insurance company in this manner, this does not mean the agency nets monies from the related asset replacement cost.

Directly Generated Dedicated Funds (4200)

This object class includes taxes and fees levied by a transit agency that is organized as an independent political entity with its own taxation authority. Dedicated revenues originating from a local or state government are classified elsewhere (see Object Classes, 4300, 4400, or 4500).

Total Recoveries (4210)

Revenues earned by taxing the income of individuals and/or organizations subject to the taxing authority of the transit agency.

Sales Taxes (4220)

Revenues earned by taxing sales of goods and/or services subject to the taxing authority of the transit agency.

Property Taxes (4230)

Revenues earned by taxing property subject to the taxing authority of the transit agency.

Fuel Taxes (4240)

Revenues earned by taxing fuel subject to the taxing authority of the transit authority. This object class was previously known as gasoline taxes, but includes all fuel taxes.

Other Taxes (4250)

Revenues earned by levying other taxes by the authority of the transit agency. Examples include cigarette/tobacco, payroll, excise, and vehicle rental taxes.

Other Dedicated Funds (4290)

Revenues dedicated to transit other than taxes or tolls. These are often fees imposed on the public by the transit agency. Examples include the following: vehicle licensing and registration fees; driver's license fees; communications access fees and surcharges; or lottery and casino proceeds.

Local Government Funds (4300)

These are funds received from municipal and county governments.

General Revenues of the Local Government (4310)

The government may appropriate a portion of its general budget to transit without a dedicated source of funding. In this case, the transit agency annually competes for funding with other entities such as schools and police forces and reports under this object class.

Local Funds Dedicated to Transit at Their Source (4320)

Local Funds Dedicated to Transit at Their Source include taxes and fees levied by entities of local government such as cities and counties, and explicitly dedicated to transit.

Income Taxes (4321)

Revenues earned by taxing the income of individuals and/or organizations subject to the taxing authority of the local government.

Sales Taxes (4322)

Revenues earned by taxing sales of goods and/or services subject to the taxing authority of the local government.

Property Taxes (4323)

Revenues earned by taxing property subject to the taxing authority of the local government.

Fuel Taxes (4324)

Revenues earned by taxing fuel subject to the taxing authority of the local government. This object class was previously known as gasoline taxes, but includes all fuel taxes.

Other Taxes (4325)

Revenues earned by levying other taxes by the authority of the local government. Examples include cigarette/tobacco, payroll, excise, and vehicle rental taxes.

Other Dedicated Funds (4329)

Revenues dedicated to transit other than taxes or tolls. These are often fees imposed on the public by the local government. Examples include the following vehicle licensing and registration fees, driver's license fees, communications access fees and surcharges, and lottery and casino proceeds.

Extraordinary and Special Items (4330)

Extraordinary and Special Items is defined in Directly Generated Funds. There are four object classes for Extraordinary and Special sources of funds. This one is for such funds that come from local sources. For example, agencies report county disaster relief funds in this object class.

Other Local Funds (4390)

These are funds from local government that cannot be considered either an allocation from the general revenues, or a dedicated fund. Other local funds typically include local grants or other miscellaneous local funds.

State Government Funds (4400)

These are funds received from state, commonwealth, or territory governments. There are essentially two common ways a state government can provide funds to a transit agency. A third category exists in this object class to explain unusual or one-time state grant awards.

General Revenues of the State Government (4410)

The government may allocate a portion of its general budget to transit without a dedicated source of funding. In this case, the transit agency annually competes for funding with other programs. The agency reports this non-dedicated funding as General Revenues of the State Government.

State Transportation Fund (4420)

Many states set up a State Transportation Fund that is separate from the General Fund. It usually has several dedicated sources of funding, often including funding sources such as fuel taxes, vehicle registration fees, or bonds backed by such sources. The Transportation Fund typically funds both transit agencies and other transportation needs such as the highway department. Unlike dedicated funds provided by local governments, transit agencies are not required to report the individual sources of funding that support the State Transportation Fund.

Extraordinary and Special Items (4430)

This object is for extraordinary funds that come from state sources. For example, agencies report state disaster relief funds in this object class.

Federal Funds (4500)

This category includes federal funds received directly from FTA or from a pass-through agency. The local match portion of a grant is not part of the federal funds but reported in a previously identified directly generated, state or local funds object class.

The USOA does not define any categories within this object class (e.g., there is no 4510, 4520). The manual does note that FTA grant funds fall into one of three categories: (a) operating assistance; (b) capital assistance; and (c) operating items that can be reimbursed at the capital ratio (e.g., preventive maintenance). This categorization is based on federal participation ratio.

The USOA also notes the different FTA program in this object class, suggesting subcategories based on the individual grant funding source.

National RTAP recommends that transit agencies adopt a grants-based, rather than a federal participation ratio-based approach to its accounting in this object class. This recommendation is consistent with requirements stipulated by OMB in 2 CFR § 200.302(b)(1). Alternatively, transit systems could adopt a hybrid of the suggested divisions in the USOA manual; this is the optional schematic is depicted below.

Section 5311 (4510)

Title 49 U.S.C. 5311 authorizes the Secretary may make grants to assist states and local governmental authorities in financing capital, operating, planning, and job access and reverse commute projects, associated with providing public transportation in rural areas.

4511 Operating Revenues

Operating assistance funding is explicitly intended to be spent on operations, and in most cases requires 50% local match.

4512 Capital Revenues

Capital assistance funding is required to be spent on capital, and in most cases requires 20% local match.

4513 Revenues Spent on Operations as Capital

In some cases, capital assistance may be spent on activities that are normally considered operating, such as preventive maintenance and Americans with Disabilities Act (ADA) service. This typically requires 20% local match. Although these funds are capital grants, the agency reports it as an operating expense because it spent the funds on operations.

Section 5310 (4520)

Title 49 U.S.C. 5310 authorizes the formula assistance program for the special needs of seniors and persons with disabilities.

4521 Operating Revenues

Operating assistance funding is explicitly intended to be spent on operations, and in most cases requires 50% local match.

4522 Capital Revenues

Capital assistance funding is required to be spent on capital, and in most cases requires 20% local match.

4523 Revenues Spent on Operations as Capital

In some cases, capital assistance may be spent on activities that are normally considered operating, such as preventive maintenance and Americans with Disabilities Act (ADA) service. This typically requires 20% local match. Although these funds are capital grants, the agency reports it as an operating expense because it spent the funds on operations.

Section 5307 (4530)

Title 49 U.S.C. 5307 authorizes funding for the Urbanized Area Formula Program, a formula program for urbanized areas that provides federal assistance for both capital and operating projects.

4531 Operating Revenues

Operating assistance funding is explicitly intended to be spent on operations, and in most cases requires 50% local match.

4532 Capital Revenues

Capital assistance funding is required to be spent on capital, and in most cases requires 20% local match.

4533 Revenues Spent on Operations as Capital

In some cases, capital assistance may be spent on activities that are normally considered operating, such as preventive maintenance and Americans with Disabilities Act (ADA) service. This typically requires 20% local match. Although these funds are capital grants, the agency reports it as an operating expense because it spent the funds on operations.

Section 5339 (4540)

Title 49 U.S.C. 5339 authorizes to states and transit agencies through a statutory formula to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities.

Other Federal Grant Awards (4590)

Use this object class for any other federal grant awards.

Non-Added Revenues (4600)

Non-added revenues are funds received by the transit agency that are not included in the total funds earned during the operating period.

Contributed Services (4610)

Contributed services are in-kind services received by the transit system from another entity or person where there is no payment for the services. Since there is no actual cost for the contributed service, the NTD includes the value of the service as non-added revenue. An example of a contributed service is when a retired lawyer provides pro-bono legal services to the local transit agency.

Voluntary Non-Exchanges Transactions (4620)

This object class is for the receiver to record the non-exchange value when all applicable eligibility requirements have been met. In a voluntary non-exchange transaction, an agency gives or receives value (e.g., revenue vehicle) without directly receiving or giving equal value (e.g., cash) in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. An example of a voluntary non-exchange transaction is when one government agency builds capital assets and transfers the assets to another transit agency that operates them.

The recipient of a non-exchange transaction recognizes non-exchange receivables or funds when all applicable eligibility

requirements have been met.

Sales and Disposals of Assets (4630)

Sales and disposals of assets include, but are not limited to: sales of equipment, buildings, real estate and other property. Funds from sales and disposals of capital assets are not considered revenues earned because these transactions involve the conversion of existing assets into cash and not an increase in asset value. Consequently, NTD does not include this amount in the total funds earned during the reporting period. If an asset is sold for an amount higher than its book value (cost less accumulated depreciation), the agency records the difference between the sale price and book value as a gain in Other Agency Revenues (4150).

Transportation Development Credits (4640)

In some states, funds spent on transportation at the state level can be used as a non-federal match for federal grants to transit agencies. Some rural and small transit agencies use these credits to meet part of the matching share required under Section 5311 grants. These are known as Transportation Development Credits (TDCs) or toll credits. Since these credits are not actually used to cover expenses, NTD does not include these credits in the total funds earned.

EXPENSES

Operating Expenses (5000)

Operating expenses are expenditures incurred by a transit agency in providing public transportation service. Operating expenses for transit agencies generally include, but are not limited to, salaries and wages, fringe benefits, services, fuel and lubricants, vehicle maintenance, materials and supplies, utilities, insurance, taxes, interest, and leases.

Labor (5010)

Labor expenses arise from the performance of work by employees. Labor expenses include pay and allowances owed to employees in exchange for the services provided to the transit agency. It also includes bonuses, shift differentials, overtime premiums, minimum guarantees, paid absences, and fringe benefits.

Operator Labor (5011)

Operators' salaries and wages include the cost of labor, excluding paid absences and fringe benefits, for the transit agency's employees who are classified as revenue vehicle operators or crewmembers.

5011.01 Regular Time – Operator time worked, including report time, platform time, turn-in time, and accident reporting time. When such expenses are charged to a federal grant, the transit must meet the documentation requirements in 2 CFR § 200.430(i).

5011.02 *Overtime – Unless exempt, employees covered by the Fair Labor Standards Act (FLSA) must receive overtime pay for hours worked over 40 in a workweek at a rate not less than time and one-half their regular rates of pay. In order to provide management with the tools to monitor overtime, separately accounting for overtime pay may be beneficial.*

5011.03 *Training Wages – An option subcategory for use when new employees work at a training rate until such time as the employees completes the agency on-boarding and training requirements.*

Operators' Paid Absences (5012)

This includes vacation leave, sick time, and other paid time off not contingent on a specific event outside the control of the transit agency for revenue vehicle operators or crewmembers. Based on individual transit system accounting needs/requirements, subcategories under this object class could include:

5012.01 *Sick Leave*

5012.02 *Vacation Leave*

5012.03 *Holiday Leave*

5012.09 *Other Leave*

Other Salaries and Wages (5013)

This object class includes the cost of other labor, excluding paid absences and fringe benefits, of employees of the transit agency who are not classified as revenue vehicle operators or crewmembers (e.g., dispatchers, maintenance workers, administrative staff, and transit managers). If a rural transit agency is in a state that permits project administrative expenses to be billed at that 80 percent federal participation ratio, it is recommended that subclasses be used to distinguish between non-operator personnel.

5013.01 *Other Operations Salaries and Wages – Regular*

5013.02 *Other Operations Salaries and Wages – Overtime*

5013.03 *Other Operations Training Wages*

5013.04 *Administrative Salaries and Wages – Regular*

5013.05 *Administrative Salaries and Wages – Overtime*

5013.06 *Other Salaries and Wages*

Other Paid Absences (5014)

This includes vacation leave, sick time, and other paid time off not contingent on a specific event outside the control of the transit agency for its employees that are not classified as revenue vehicle operators or crewmembers.

Fringe Benefits (5015)

Fringe benefits are the expenses for employment benefits that an employee receives in addition to his or her base salaries and wages. Fringe benefits include payments associated with the employee's labor that do not arise from the performance of work, but still arise from the employment relationship. The USOA does not establish any subcategories, but notes that fringe benefits can be divided into the following four categories: (1) employment taxes; (2) health and welfare benefits; (3) retirement benefits and pension plans; and (4) other fringe benefits.

The "Other" category noted above is designed to capture such benefits as uniform and work clothing; tool allowances; employee and family transit passes; reimbursements for moving and education; assistance for dependent care, childcare, and adoption; employee discounts; and other fringe benefits not described in the categories listed above.

- 5015.01 Operator Employment Taxes*
- 5015.02 Other Operations Employment Taxes*
- 5015.03 Administrative Employment Taxes*
- 5015.04 Operator Health & Welfare Expenses*
- 5015.05 Other Operations Health & Welfare Expenses*
- 5015.06 Administrative Health & Welfare Expenses*
- 5015.07 Operator Retirement*
- 5015.08 Other Operations Retirement*
- 5015.09 Administrative Retirement*
- 5015.10 Other Fringe Benefits*

Services (5020)

Services are the labor and other work provided by outside organizations for fees and related expenses. Outside organizations may be private companies or public entities. The agency reports work done by personnel within the reporting unit as salaries and wages and fringe benefits. For example, if the reporting unit is a city, then transit-related work done by city employees, even those outside the transit division, is reported as salaries and wages and fringe benefits, not services. Services provided by an outside organization are usually procured as a substitute for in-house employee labor, except in the case of independent audits, which could not be performed by employees. Agencies usually substitute services for in-house labor because the skills offered by the outside organization are needed for only a short period of time or internal staff does not have the requisite skills. This object class includes all costs that are part of the service agreement. For example, if in a contract for custodial service the custodial company provides the cleaning supplies, the cost of these supplies belongs to Services, not Other Materials and Supplies. Services expenses may apply to any sub-function.

The Services object class does not include purchased transportation service. A contractor that provides vehicle operators is considered a purchased transportation provider, and any other labor or materials provided by that contractor, including fuel, parts, and maintenance, belong to the purchased transportation object class.

The USOA does not define any categories under this object class; however, most agencies will want to create such subcategories for accounting purposes. In this case, older versions of the USOA suggest accounts that can be considered by rural and small urban transit agencies.

Management Services (5021)

The labor and services provided by a management service company hired to provide operating management to the transit agency. This category includes the ongoing labor and services of the management service company personnel devoted full-time to the transit agency. In addition, it includes the occasional consulting and special purpose studies provided directly by the management service company.

Accounting/Audit (5022)

Accounting services and audit fees for services provided by third parties.

Other Professional and Technical Services (5023)

The labor and services provided by attorneys, computer (IT) service companies, engineering firms, planning consultants, and transit industry consultants. These services generally require specialized technical knowledge and are usually performed under the supervision of the outside organization.

Drug & Alcohol/Medical Services (5024)

Services and fees associated with fees to third party administrators of drug and alcohol testing consortia, drug and alcohol tests, Medical Review Officer services, and physical exams mandated by U.S. DOT.

Contract Vehicle Maintenance Services (5025)

Vehicle maintenance and repair services provided by third parties. This category includes body work and painting.

Custodial Services (5026)

The performance of janitorial services, under contract or on a single job basis with an outside organization.

Security Services (5027)

The patrolling of transit agency vehicles, stations, yards and buildings to detect and prevent criminal activity, fires, and other security-related conditions. The patrolling is performed by an outside security agency rather than by the transit agency's employees.

Communications Services (5028)

Services provided by third party consultants and technicians in the installation, repair, and maintenance of the transit

system's two-way radio system. These services are uniquely focused on bi-directional voice and data communications which requires a license from the Federal Communications Commission (FCC).

Other Service (5029)

Other professional services not classified in this object class.

Materials and Supplies (5030)

The expenses in the following object classes include products obtained from outside suppliers or those manufactured internally. The cost of the material or supply includes freight-in, purchase discounts, cash discounts, sales taxes, and excise taxes (except on fuel and lubricants). Charges to this object class include both materials and supplies issued from inventory for use, and materials and supplies purchased for immediate use (i.e., items used without going through inventory).

Fuel and Lubricants (5031)

This object class includes fuel used to propel revenue and non-revenue vehicles and lubricants such as motor oil, transmission fluid, and grease. Purchase and cash discounts are included in the cost of the fuel or lubricant.

Tires and Tubes (5032)

This object class includes the cost of tires and tubes, whether they are rented, leased or purchased. The agency does not report rented and leased tires and tubes under Operating Lease Expenses (5220). Purchase discounts, cash discounts, sales taxes, and excise taxes are included in the cost of the tires and tubes.

Vehicles Supplies (5033)

The object class includes the costs of license, tags, and fees; vehicles parts; cleaning supplies, and other vehicle related items, such as first-aid and safety equipment.

Office Supplies (5034)

Consumables and equipment with a unit acquisition cost of less than \$5,000 regularly used in day-to-day operation by the transit system. Office supplies include, but are not limited to paper, pencils, printer ink/toner, adding machine paper, desk calendars, rulers, staplers, tape dispensers, etc.

Educational/Training Materials (5035)

Costs of training materials, manuals, and equipment used in employee training.

Other Materials and Supplies (5039)

The expenses in this object class include products obtained from outside suppliers or those manufactured internally that are not covered in the two preceding object classes. The cost of the material or supply includes shipping costs, purchase discounts, cash discounts, sales taxes, and excise taxes. Costs associated with this object class include materials and supplies issued from inventory or purchased for immediate use (i.e., items used without going through inventory).

Utilities (5040)

This object class includes expenses for electricity, gas, water, telephone, heating oil, fuel for backup generators, and internet. While the USOA requires no further breakdown, National RTAP recommends that transit system maintain separate subaccounts for each utility.

Electricity (5041)

The costs associated with the provision of electric power to transit facilities, vehicles, etc.

Gas (5042)

The costs associated with the provision of natural gas, compressed gas, propane, or other gas to provide heat to transit facilities.

Heating Oil (5043)

The costs associated with the purchase of heating oil to be used to heat transit facilities.

Water and Sewer (5044)

The costs associated with the provision of water and sewer services to transit facilities.

Telephone (5045)

The costs associated with telephone and cellular services used to establish communication with the public and/or to facilitate the transfer of data between the system vehicles and transit facilities.

Internet (5046)

The costs associated with the provision of internet services, fees charged by an internet service provider, and related costs of both personal computer and mobile platform applications.

Casualty and Liability (5050)

Casualty and liability costs are expenses related to loss protection and losses incurred by the transit agency. These expenses include: (a) compensation of others for their losses due to acts for which the transit agency is liable; (b) the costs of protecting the transit agency from losses through conventional insurance and other risk financing programs (e.g., self-insurance and insurance pools); and (c) agency losses due to the liable actions of others that are covered by other corporate insurance.

The USOA no longer details specific subaccounts for casualty and liability; however, the new version still cites the various subaccounts defined in the older version. National RTAP believes most entities will want to maintain the older breakdowns, detailed below.

Premiums for Physical Damage Insurance (5051)

Premiums applicable to the reporting period to insure the transit agency from loss through damage to its own property caused by collision, fire, theft, flood, earthquakes and other types of losses.

Premiums for Public Liability and Property Damage Insurance (5052)

Premiums applicable to the reporting period to insure the transit agency against loss from liability for incidents by the transit agency which cause damage to the person or property of others.

Payouts for Insured Public Liability and Property Damage Settlements (5053)

Payments (or accruals) of actual liability to others arising from culpable acts of the transit agency that are covered by public liability insurance.

Payouts for Uninsured Public Liability and Property Damage Settlements (5054)

Payments (or accruals) of actual liability to others arising from culpable acts of the transit agency that are not covered by public liability insurance.

Provision for Uninsured Public Liability and Property Damage Settlements (5055)

Periodic estimates of liability to others arising from culpable acts of the transit agency that relate to the current period that are not covered by public liability insurance.

Premiums for Other Corporate Insurance (5056)

Premiums applicable to the reporting period to insure the transit agency from losses other than damage to its property or liability for its culpable acts (e.g., fidelity bonds, business records insurance).

Other Corporate Losses (5059)

Charges for actual losses resulting from events covered by the other corporate insurance.

Taxes (5060)

Tax expenses are the charges and assessments levied against the transit agency by federal, state and local governments. Sales taxes, excise taxes, freight-in and other acquisition costs are not included in this object class. Instead, they are accounted for as part of the cost of the material or service purchased.

Reimbursement, or refunds, of taxes paid include the receipt or accrual of state government payments to help cover the cost of taxes incurred by the transit agency. Reimbursement of taxes is netted from the associated expense on which the tax was originally levied. The agency does not report reimbursements of taxes as revenue. For example, some states reimburse transit agencies for taxes paid on fuel. Agencies net refunds of fuel taxes from fuel tax expense, rather than reporting them as revenue.

As most recipients of FTA funds are tax exempt, the various subaccounts are not used here.

Miscellaneous Expenses (5090)

This object class includes expenses that cannot be attributed to any of the other expense object classes. Agencies must check to be sure an expense does not belong in a different object class before reporting it as miscellaneous.

Dues and Subscriptions (5091)

Fees for membership in industry organizations and subscriptions to eligible periodical publications.

Travel and Meetings (5092)

Fares and allowances for transportation of transportation system employees and related officials of airplanes, trains, etc. Expenses for food and lodging charges for participation in industry conferences other related business meeting expenses.

Other Miscellaneous Expenses (5099)

All other expenses not appropriately classified elsewhere.

Purchased Transportation (5100)

Purchased Transportation in Report (5101)

This object class includes the payments or accruals to sellers or providers of service, including fare revenues retained by the seller. The agency reports Purchased Transportation (PT) expenses in this object class when they report the associated service in their own NTD report. If the other party reports the service, the expenses belong to the object class Purchased Transportation Filing Separate Report (5102). The PT seller must provide a breakdown of the expense object classes, separated out by the four NTD functions (i.e., Vehicle Operations, Vehicle Maintenance, Facility Maintenance, and General Administration) according to the classifications defined throughout this document.

Purchased Transportation Filing Separate Report (5102)

The agency reports Purchased Transportation (PT) expenses in this object class when the other party reports the associated service data (e.g., miles, ridership) in their own NTD report. The agency that reports the service data then reports Purchased Transportation (PT) expenses in the object class Purchased Transportation in Report (5101). The Purchased Transportation (PT) seller must provide a breakdown of the expense object classes, separated out by the four NTD functions (i.e., Vehicle Operations, Vehicle Maintenance, Facility Maintenance, and General Administration) according to the classifications defined throughout this document.

Reconciling Items (5200)

Reconciling items are expenses that are not included as capital expenses or as mode-specific operating expenses.

Interest Expenses (5210)

Interest expenses are charges for the use of capital borrowed by the transit agency. Interest expenses may accrue on both short-term debt and long-term debt obligations.

Interest on Long-Term Debt Obligations (5211)

Charges for the use of capital borrowed on a long-term basis (the liability for which is usually represented by bonds or loans) employed in the operation of the transit system. Interest charges pertaining to construction debt that are capitalized will not be reflected as interest expense.

Interest on Short-Term Debt Obligations (5212)

Charges for the use of capital borrowed on a short-term basis employed in the operation of the transit agency.

Operating Lease Expenses (5220)

Operating lease expenses include payments for the use of capital assets not owned by the transit agency. Operating leases allow the transit agency to use assets, but do not allow them the rights of asset ownership (e.g., transfer of title). As such, operating leases are not capitalized as assets, but are recorded as operating expenses during the reporting period. Examples of an operating lease would be an office copy machine.

If part of the lease cost covers a service, rather than just the cost of the use of the asset, the agency reports this under Services (5020) rather than operating lease expenses.

Capital Leases (5230)

Other than an operating lease, a transit agency may also have a capital lease. A lease is considered a capital lease if it meets any of the following four criteria at its inception (the earlier of the date of the lease agreement or commitment): (a) the lease transfers ownership (e.g., transfer of title) of the property to the transit agency by the end of the agreed-upon lease term; (b) the lease contains a provision that allows the transit agency to purchase the leased property for a reduced price (reduced compared to expected fair value of the property at the date that the purchase option becomes exercisable); (c) the lease term is equal to or greater than 75% of the estimated useful life of the leased property; or (d) the present value at the beginning of the lease term of the minimum lease payments to be paid by the transit agency, excluding executory costs such as insurance, maintenance, and taxes, is equal to or greater than 90% of the fair value of the property at lease inception.

Related Parties Lease Agreements (5240)

Transit agencies may also have related parties lease agreements. Related parties leases are leases with terms and payment amounts that are substantially less than they would be in usual circumstances because the transit agency is related to the lessor. Common examples include: (a) a state government's department of transportation purchases buses and leases them to transit agencies in the state at half the market rate; and (b) a county government leases land to a local transit agency for use as a parking lot for a dollar a year. Such leases should be reported here and not in Capital Leases 5230.

Voluntary Non-Exchange Transactions (5250)

In a voluntary non-exchange transaction, an agency gives or receives value (e.g., revenue vehicle) without directly receiving or giving equal value (e.g., cash) in return. An example of a voluntary non-exchange transaction is when one transit agency builds capital assets, such as railways and train stations, and transfers the assets to another transit agency that operates them. Other examples of voluntary non-exchange transactions include certain grants and private donations.

Depreciation (5260)

Depreciation is the depletion of the cost of capital assets; it reflects the loss in value of capital assets over the years. In order to account for the reduction in value and usefulness of tangible property, the agency expenses a portion of the cost as depreciation each year of the asset's life. The agency reports the amount depreciated during the reporting period as an operating expense/reconciling item. Typically, as a non-cash expenditure, the agency reports depreciation as Funds Not Applied. Agencies choose their own depreciation method provided that the depreciation value is measured in a systematic and rational manner.

Agencies also report the cost of writing off property damaged beyond repair that do not qualify as extraordinary and special items in this object class.

Amortization of Intangibles (5270)

Amortization is the systematic spreading of the value of intangible assets other than goodwill over the asset's estimated useful life. Generally, agencies use the straight-line method to amortize intangible assets. The agency reports the amount amortized during the reporting period as an operating expense/reconciling item. Typically, the agency reports amortization as Funds Not Applied since it is not a cash expenditure.

Extraordinary and Special Items (5280)

Extraordinary items are material events or transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Examples of material extraordinary items include capital assets that were impaired by extraordinary events such as Hurricane Sandy or Hurricane Katrina. The agency reports these impaired values as extraordinary items rather than regular operating expenses to highlight their unusual and infrequent nature.

Other Reconciling Items (5290)

Other Reconciling Items are any other costs that cannot be captured in the above reconciling items object classes, such as funds to another agency through a cooperative agreement and expenses for purchased transportation services not meeting NTD requirements for a contractual agreement.

ADA Related Reconciling Expenses (5910)

Agencies must report the total expenses that result from ADA requirements for complementary paratransit in demand response (DR) and demand response-taxi (DT) modes. In this object class, agencies report the portion of their operating expenses that are attributable to ADA-required service.

This object class is not exclusive of other operating expense object classes. For example, if you spent \$10,000 on vehicle fuel, and \$1,000 of this was to fuel a vehicle used for ADA service, then you would report \$10,000 under Fuel and Lubricants (5031) and \$1,000 under ADA Expenses (5910).

CAPITAL

Capital expenses are those expenses that are related to purchasing a capital asset or making an improvement to a capital asset that materially increases its value or useful life. These expenses are not used for ordinary day-to-day operating expenses of a business, like salaries, utilities and insurance. Capital assets include vehicles, infrastructure, land, improvements to land, easements, buildings, building improvements, machinery, equipment, works of art and historical treasures, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single year.

Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the agency's regular accounting practices.

Tangible assets are those that have a physical form. Tangible assets include but are not limited to guideway, revenue and service vehicles, land, buildings, and fare collection equipment. Intangible assets are not physical in nature. Examples of intangible assets include software, air rights, easements, water rights, timber rights, patents, and trademarks.

Passenger Stations (6200)

Passenger stations are buildings and/or facilities where passengers board transit vehicles. This asset classification includes park-and-ride facilities.

Administrative Buildings (6300)

This asset classification includes buildings in which administrative work takes place. A common example of this is an office building.

Maintenance Buildings (6400)

This asset classification includes facilities in which vehicles are maintained. This asset classification should also include equipment that is solely used for vehicle maintenance, such as bus diagnostic equipment or vehicle lifts.

Revenue Vehicles (6500)

This asset classification comprises vehicles that provide transit service. The cost of the vehicle includes both the vehicle and all fixtures and appliances inside or attached to the vehicle. When equipment such as a farebox, radio, Automatic Vehicle Locator (AVL), or spare engine is included as part of the vehicle purchase, these items are part of the vehicle cost.

Service Vehicles (6600)

This asset classification comprises vehicles that do not provide transit service, such as tow trucks or supervisor cars. The cost of the vehicle includes both the vehicle and all fixtures and appliances inside or attached to the vehicle. It includes the cost of one set of tires and tubes to make the vehicle operational.

Fare Collection Equipment (6700)

This asset classification includes equipment used in the collection of fares. It includes, but is not limited to the following types of equipment: (a) turnstiles; (b) fare boxes; (c) software related to fare collection; (d) money changers; (e) fare media dispensing machines; and (f) software used to operate mobile ticketing applications.

Communication/Information Systems (6800)

This asset classification includes both communication and information systems that are used in transit agencies. This category is expansive and intend to grow as new technologies are introduced into the transit marketplace. This category includes: (a) radios; (b) automatic vehicle locator (AVL) systems; (c) automated dispatching systems; (d) vehicle guidance systems; (e) public address systems; (f) automated passenger counter (APC) systems and associated software; (g) global positioning systems (GPS); (h) computers, monitors, and printers; and (i) other software that supports accounting, planning, maintenance, customer service, and other transit functions.

Other Capital Equipment (6900)

This asset classification includes capital expenses that could not be included in the asset classifications described above, and include, but are not limited to, the following capital expenses: (a) furniture and equipment that is not an integral part of buildings and structures; (b) passenger stops and shelters that do not meet the definition of a passenger station; and (c) intangible assets such as air rights, easements, water rights, timber rights, patents, and trademarks.

Notes

GLOSSARY OF TERMS

Accounting System. An accounting system consists of the business papers, records, and reports plus the procedures that are used in recording transactions and reporting their effects. An example of an accounting system is the Uniform System of Accounts (USOA).

Accrual Accounting. A method of financial accounting where revenues are recorded when earned instead of when received, and expenses are recorded when incurred instead of when paid.

Accumulated Depreciation. The cumulative depreciation of an asset up to a single point in its useful life. An asset's book value is the difference between its purchase price and accumulated depreciation.

Acquisition Cost. The cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be either included in or excluded from the acquisition cost in accordance with the non-federal entity's regular accounting practices.

Allocation. The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Americans with Disabilities Act of 1990 (ADA). The legislation that requires transportation providers to make transportation accessible to individuals with disabilities and specifies agencies' responsibilities in this effort.

Amortization. The systematic spreading of the value of intangible assets over the asset's estimated useful life.

Applicant. An entity that is seeking, but has not yet been awarded, specific federal financial assistance directly from FTA.

Audit Finding. Audit finding means deficiencies which the auditor is required under government audit standards to report in the schedule of findings and questioned costs.

Auditee. Auditee means any NFE that expends federal awards which must be audited under 2 CFR 200.500.

Auditor. Auditor means an auditor who is a public accountant or a federal, state or local government audit organization, which meets the general standards specified in generally accepted government auditing standards (GAGAS).

Auxiliary Transportation Funds. Funds earned from activities related to the provision of transit service, but are not payment for transit service. Auxiliary funds result from business-type activities in which an agency earns supplemental revenues, including advertising and concessions.

Budget. Budget means the financial plan for the project or program that the federal awarding agency or pass-through entity approves during the federal award process or in subsequent amendments to the federal award. It may include the federal and non-federal share or only the federal share, as determined by the federal awarding agency or pass-through entity.

Capital Assets. Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that have useful lives over one year.

Capital Maintenance Expenses. Expenses classified as operating expenses under the Uniform System of Accounts (USOA) that are eligible for capital funds under FTA formula programs (e.g., preventive maintenance costs).

Cash Accounting. The cash basis of accounting is the method in which revenue is recorded when received, rather than when earned, and expenses are recorded when paid, rather than when incurred. FTA does not permit recipients or subrecipients to report financial data on the cash basis; further, FTA does not permit recipients to prepare their Federal Financial Reports (FFR) using the cash method of accounting.

Catalog of Federal Domestic Assistance. A government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by departments and establishments of the federal government. The CFDA number assigned to each program is used to report and track audit findings related to federal grants and cooperative agreements.

Central Service Cost Allocation Plan. Central service cost allocation plan means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

Chart of Accounts. A listing of all accounts used in the general ledger of the transit agency. The chart is used by the accounting software to aggregate information into an entity's financial statements. The chart is usually sorted in order by account number with an appropriate account title to assist in the entry of assets, liabilities, income, and expenses.

Closeout. The process by which FTA, or a pass-through entity, determines that the scope of work of the federal award and all applicable administrative actions, including actions described in 2 CFR § 200.343, have been met or FTA has determined the award should be terminated.

Cognizant Agency for Audit. The federal agency designated to carry out the responsibilities described in 2 CFR §200.513(a). The cognizant agency for audit is not necessarily the same as the cognizant agency for indirect costs.

Cognizant Agency for Indirect Costs. Cognizant agency for indirect costs means the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit.

Contract. A legal instrument by which an NFE purchases property or services needed to carry out the project or program under a federal award. The term as used in this part does not include a legal instrument, even if the NFE considers it a contract, when the substance of the transaction meets the definition of a federal award or subaward.

Corrective Action. An action taken by the recipient being audited or reviewed that: corrects identified deficiencies or findings; recommends improvements to recipient's processes to eliminate root causes of non-conformities; or demonstrates that audit findings are either invalid or do not warrant auditee action.

Cost Sharing or Matching. The portion of project costs not paid by federal funds (unless otherwise authorized by federal statute).

Cost Allocation Plan. A central service cost allocation plan or public assistance cost allocation plan.

Cost Objective. A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the NFE, a particular service or project, a federal award, or an indirect cost activity.

Depreciation. The method used to calculate the reduction in value of an item of personal or real property over time. It is also a method of determining fair market value when disposing of an asset prior to the end of its useful life.

Direct Costs. Those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or

indirect (F&A) costs.

Direct Recipient. Any NFE that receives funding directly from FTA.

Disallowed Costs. Those charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the federal award.

Disability. The term disability has the same meaning as in section 3(1) of the Americans with Disabilities Act of 1990, 42 U.S.C. § 12102. The term “disability” means, with respect to an individual: a physical or mental impairment that substantially limits one or more major life activities of such individual; a record of such an impairment; or being regarded as having such an impairment.

Discretionary Funding. Federal assistance distributed at the discretion of the agency, or by Congress, as distinct from formula funding.

Disposition. The settlement of the federal interest in project property that is no longer needed for the originally authorized purpose.

Equipment. Tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the NFE for financial statement purposes, or \$5,000.

Expenditures. Charges made by a recipient or subrecipient to a project or program for which a federal award was received. The charges must be reported on an accrual basis. Expenditures are the sum of: cash disbursements for direct charges for property and services; the amount of indirect expenses incurred; the value of third-party in-kind contributions applied; and the net increase or decrease in the amounts owed by the recipient or subrecipient for goods and other property received, services performed by employees, third-party contractors, subrecipients, and other payees, and programs for which no current services or performance are required such as annuities, insurance claims, or other benefit payments.

Fair Market Value (FMV). The most probable price that an asset or property would bring in a competitive and open market.

Fare Revenues. Income received directly from passengers or from organizations in exchange for service, paid either in cash or through pre-paid tickets, passes, etc. It includes donations from those passengers who donate money on the vehicle. It includes the reduced fares paid by passengers in a user-side subsidy arrangement.

Federal Audit Clearinghouse (FAC). The clearinghouse designated by the Office of Management and Budget (OMB) as the repository of record where NFEs are required to transmit the reporting packages required by Subpart F—Audit Requirements of 2 CFR § 200.

Federal Awarding Agency. The federal agency that provides a federal award directly to an NFE.

Federal Interest. Used in connection with the acquisition or improvement of real property, equipment, or supplies under a federal award, federal interest is the dollar amount that is the product of the: (a) federal share of total project costs; and (b) current fair market value of the property, improvements, or both, to the extent the costs of acquiring or improving the property were included as project costs.

Federal Share. The portion of the total project costs that are paid by federal funds.

Final Cost Objective. A cost objective which has allocated to it both direct and indirect costs and, in the NFE’s accumulation system, is one of the final accumulation points, such as a particular award, internal project, or other direct activity of an NFE.

Formula Funding. Funding allocated using factors that are specified in law or in an administrative formula developed by FTA.

Grant. An award of financial assistance, including a cooperative agreement, in the form of money, or property in lieu of money, by the federal government to an eligible recipient or recipient. Used interchangeably with “grant agreement.”

Grant Application. A complete application for an award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the federal government to an eligible recipient.

Generally Accepted Accounting Principles (GAAP). The accounting generally accepted standards issued by the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

Generally Accepted Government Auditing Standards (GAGAS). The generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

Incidental Use. The limited, authorized non-transit use of project property acquired with FTA assistance. Such use must not conflict with the approved purposes of the project and must not interfere with the intended transit uses of the project property. An acceptable incidental use does not affect a property’s transit capacity or use; and, FTA may concur in incidental use after awarding the grant or entering into cooperative agreement.

Indian Tribe (or “Federally recognized Indian tribe”). Any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. Chapter 33), which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

Indirect (Facilities & Administrative (F&A)) Costs. Those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Indirect Cost Rate Proposal. The documentation prepared by an NFE to substantiate its request for the establishment of an indirect cost rate as described in 2 CFR § 200, Appendix III through Appendix VII.

Intangible Property. Property having no physical existence, such as trademarks, copyrights, patents and patent applications, and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property at issue is tangible or intangible).

Intercity Bus Service. Regularly scheduled bus service for the general public that operates with limited stops over fixed routes connecting two or more urban areas not in close proximity, that has the capacity for transporting baggage carried by passengers, and that makes meaningful connections with scheduled intercity bus service to more distant points, if such service is available.

Interest Expenses. The charges for the use of borrowed capital incurred by the transit agency, including interest on long- and short-term debt. Interest charges pertaining to construction debt that are capitalized will not be reflected as interest expenses.

Internal Controls. A process, implemented by an NFE, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) effectiveness and efficiency of operations; (b) reliability of reporting for internal and external use; and (c) compliance with applicable laws and regulations.

Internal Control Over Compliance Requirements for Federal Awards. A process implemented by an NFE designed to provide reasonable assurance regarding the achievement of the following objectives for federal awards: (a) transactions are properly recorded and accounted for, in order to: permit the preparation of reliable financial statements and federal reports; maintain accountability over assets; and demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award; (b) transactions are executed in compliance with: federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program; and any other federal statutes and regulations that are identified in the Compliance Supplement; and (c) funds, property, and other assets are

safeguarded against loss from unauthorized use or disposition.

Joint (or Shared) Expenses. Costs that are shared by one or more functions, modes or types of service. For example, bus (MB) and demand response (DR) revenue vehicles may fuel at the same location so that fuel expenses and their taxes are shared between the two modes.

Large Urbanized Area. An urbanized area (UZA) with a population of at least 200,000 at the time of the last decennial census.

Local Government. Any unit of government within a state, including a: county; borough; municipality; city; town; township; parish; local public authority, including any public housing agency under the United States Housing Act of 1937; special district; school district; intrastate district; council of governments (whether or not incorporated as a nonprofit corporation under state law); and any other agency or instrumentality of a multi-regional, intra-state or local government.

Locally Developed, Coordinated Public Transit-Human Services Transportation Plan. A plan that identifies the transportation needs of individuals with disabilities, older adults, and people with low incomes, provides strategies for meeting those local needs, and prioritizes transportation services for funding and implementation.

Major Program. A federal program determined by the auditor to be a major program in accordance with 2 CFR §200.518 or a program identified as a major program by a federal awarding agency or pass-through entity in accordance with 2 CFR §200.503(e).

Management Decision. The evaluation by the federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.

Master Agreement (MA). The official FTA document containing FTA and other cross-cutting federal requirements applicable to the FTA recipient and its grant or cooperative agreement. The Master Agreement for each fiscal year is effective the first day of the fiscal year (October). The Master Agreement is incorporated by reference and made part of each FTA grant, cooperative agreement, and amendment thereto.

Metropolitan Planning Organization (MPO). The policy board of an organization designated, in cooperation with the state and public transportation operators, to carry out the metropolitan planning process, including development of long-range transportation plans and transportation improvement programs for metropolitan planning areas of a state.

Micro-Purchase. A purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. Micro-purchase procedures comprise a subset of an NFE's small purchase procedures. The NFE uses such procedures in order to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost. The micro-purchase threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1. It is currently set at \$10,000 and is periodically adjusted for inflation.

Mobility Management. Consists of short-range planning and management activities and projects for improving coordination among public transportation and other transportation service providers carried out by a recipient or subrecipient through an agreement entered into with a person, including a government entity, under 49 U.S.C. Chapter 53 (other than Section 5309). Mobility management does not include operating public transportation services.

Modified Total Direct Cost (MTDC). All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

National Transit Database (NTD). The NTD is FTA's primary source for information and statistics collected from transit

systems that receive FTA formula funding under the Urbanized Area Formula Program (Section 5307) or Rural Area Formula Program (Section 5311). Public transportation systems receiving funds from these programs are required by statute to report to the NTD.

Net Project Cost. The part of a public transportation project that reasonably cannot be financed from revenues. FTA interprets “revenues” as farebox revenues.

Non-Federal Entity (NFE). A state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a federal award as a recipient or subrecipient.

Nonprofit Organization. Nonprofit organization means any corporation, trust, association, cooperative, or other organization, not including IHEs, that: is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; is not organized primarily for profit; and uses net proceeds to maintain, improve, or expand the operations of the organization.

Object Class. A grouping of sources of funds, expenses, and assets and liabilities.

Obligation. Obligation has two separate meanings when used in connection with FTA actions. First, obligation means a definite commitment that creates a legal liability of the federal government by awarding federal assistance through a grant or cooperative agreement. Second, when used in connection with a recipient’s use of federal assistance under an FTA Award, “obligation” means an order placed for property and services, a third-party contract entered into, subagreement made, and similar transaction during a given period that requires payment by the recipient during the same or a future period.

Organization-Paid Fares. The revenues earned for rides given in regular transit revenue service, but paid for by some organization rather than by the rider; and for rides given along special routes for which revenue may be guaranteed by a beneficiary of the service.

Other Than Urbanized Area (Non-UZA). See Rural Area.

Participant Support Costs. Participant support costs means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects. Participant support costs must be deducted in computing Modified Total Direct Costs.

Passenger Fares. The revenue earned from carrying passengers in transit service. Passenger fares include: base fare; zone or distance premiums; express service premiums; extra cost transfers; quantity purchase discounts applicable to the passenger’s ride; and organization-paid fares.

Pass-Through Entity. An NFE that provides a subaward to a subrecipient to carry out part of a federal program.

Preventive Maintenance. Maintenance costs related to vehicles and non-vehicles. Specifically, it is defined as all the activities, supplies, materials, labor, services, and associated costs required to preserve or extend the functionality and serviceability of the asset in a cost-effective manner, up to and including the current state of the art for maintaining such an asset.

Program Income. Gross income earned by the NFE that is directly generated by a supported activity or earned as a result of the federal award during the period of performance. Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under federal awards, the sale of commodities or items fabricated under a federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with federal award funds. Interest earned on advances of federal funds is not program income. Except as otherwise provided in federal statutes, regulations, or the terms and conditions of the federal award, program income does not include rebates, credits, discounts, and interest earned on any of them.

Public Transportation. As defined in the Urban Mass Transportation Act of 1964, “transportation by a conveyance that provides regular and continuing general or special transportation to the public, but does not include school bus, charter, or

intercity bus transportation or intercity passenger rail transportation provided by the entity described in chapter 243 (or a successor to such entity).” Notes: (1) Passenger rail transportation refers to Amtrak. (2) This definition does not affect the eligibility of intercity bus service under the Section 5311 Formula Grants for Rural Areas Program. (3) The intercity bus and intercity rail (Amtrak) portion of intermodal terminals is however an eligible capital cost.

Questioned Cost. A cost that is questioned by the auditor because of an audit finding; which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Real Property. Land, including land improvements, structures and appurtenances thereto, but excludes moveable machinery and equipment.

Recipient. An NFE that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. The term recipient does not include subrecipients.

Remaining Federal Interest. For dispositions prior to the end of useful life, the amount is calculated by multiplying the current fair market value or proceeds from the sale by FTA’s share of the property. For real property, the remaining federal interest is the federal share of the fair market value of that property, the straight-line depreciated value of improvements thereof, or the federal share of the current appraised land value, whichever is greater.

Rural Area. An area encompassing a population of less than fifty thousand people that has not been designated in the most recent decennial census as an “urbanized area” by the secretary of commerce.

Sales Proceeds. The net proceeds generated by the disposition of excess real property or equipment that was purchased in whole or in part with FTA assistance.

Satisfactory Continuing Control. The legal assurance that project property will remain available to be used for its originally authorized purpose throughout its useful life or until disposition.

Simplified Acquisition Threshold. The dollar amount below which an NFE may purchase property or services using small purchase methods. NFEs adopt small purchase procedures in order to expedite the purchase of items costing less than the simplified acquisition threshold. The simplified acquisition threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1, in accordance with 41 U.S.C. 1908. The current threshold is \$250,000; this threshold is periodically adjusted for inflation.

Small Urbanized Areas. As used in the context of FTA formula grant programs, small urbanized areas are urbanized areas with a population of at least fifty thousand but less than two hundred thousand.

State. Any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and any agency or instrumentality thereof exclusive of local governments.

Straight Line Depreciation. An alternative method to Fair Market Value used to determine the value of the remaining useful life of property. This method is calculated as a function of time instead of a function of usage. It is based on the premise that an asset’s economic usefulness is the same in each year of its useful life.

Subaward. An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

Subrecipient. An NFE that receives a subaward from a pass-through entity to carry out part of a federal program; but does

not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

Supplies. All tangible personal property other than those described in §200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the NFE for financial statement purposes or \$5,000, regardless of the length of its useful life. In FTA programs, shipping, purchase discounts, cash discounts, sales taxes, and excise taxes (except on fuel and lubricants) are included in the cost of the material or supply.

System for Award Management. The official U.S. Government system that consolidated the capabilities of the following former systems: Central Contractor Registration (CCR)/Federal Register, Online Representations and Certifications Application (ORCA), and Excluded Parties List System (EPLS). SAM registration helps to streamline the acquisition of grants, loans, contracts and intergovernmental transactions. Entities must be registered in SAM and be in active status to receive funding from federal grants, cooperative agreements, or contracts.

Third-Party Contract. A legal instrument by which a recipient or subrecipient purchases property or services needed to carry out the grant or cooperative agreement. This does not include an instrument describing a transaction that meets the definition of a federal award, grant, cooperative agreement, subaward, or subagreement.

Third-Party Contractor. An entity that receives a third-party contract, as defined in the definition of “Third-Party Contract.”

Third-Party In-Kind Contributions. Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that benefit a federally assisted project or program; and are contributed by non-federal third parties, without charge, to an NFE under a federal award.

Transit Award Management System (TrAMS). A web-based electronic award and management system used to apply for, administer, and manage FTA Awards. TrAMS is FTA’s current award-making system. TEAM was FTA’s award-making system from 1998 to 2016.

Urbanized Area (UZA). An area encompassing a population of not less than fifty thousand people that has been defined and designated in the most recent decennial census as an “urbanized area” by the secretary of commerce.

Uniform System of Accounts (USOA). A structure of categories and definitions used for National Transit Database (NTD) reporting to ensure uniform data. The USOA contains various categories of accounts and records for classifying financial (Chart of Accounts) and operating data.

Useful Life. The minimum acceptable period a capital asset purchased with FTA funds should be used in service. Capital assets purchased with FTA funds may frequently be used beyond their minimum useful lives, without being considered part of a grantee’s state of good repair backlog. The minimum useful life for rolling stock is calculated based on the date the vehicle is placed in revenue service and continues until it is removed from service. Note: land does not depreciate and does not have a useful life. However, construction, buildings, and improvements occupying the land do have useful lives.

QUIZ ANSWERS

Chapter 2: Super Circular (2 CFR Part 200)

Q1. False.

FTA notes, in the “Purpose” section of FTA Circular 5010.1E, “Award Management Requirements,” that U.S. DOT has adopted the OMB guidance contained in 2 CFR § 200 (the “Super Circular”) in its entirety, save for a few DOT-specific provisions (found in 2 CFR § 1201).

Q2. True.

In the December 26, 2013 publication in the Federal Register, OMB states that the Super Circular supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidances); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up. FTA notes that the U.S. DOT regulations, 2 CFR § 1201, supersede and repeal the requirements of the former U.S. DOT Common Rules, “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” former 49 CFR part 18, and “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations,” former 49 CFR part 19.

Q3. False.

Procedures applicable to federal awards by promulgating a regulation to be effective by December 26, 2014, unless different provisions are required by statute or approved by OMB (see 2 CFR §200.110). U.S. DOT states in 2 CFR § 1201 that grants executed prior to this date shall be managed in accordance with prior OMB guidance.

Q4. d. \$750,000.

The audit threshold was raised with the issuance of 2 CFR §200 to \$750,000 (see 2 CFR §200.501(a)).

Q5. False.

While an indirect cost allocation plan will permit entities to more accurately assess the cost of operation of specific programs, they are not required to prepare such plans. Only when a non-federal entity (NFE) seeks reimbursement of indirect costs under its federal grant awards is an approved indirect cost allocation plan required (see FTA Circular 5010.1E, Chapter VI, § 6).

See also the FAQs issued to supplement the Super Circular (2 CFR § 200.331-5) where OMB states “Claiming reimbursement for indirect costs is never mandatory; a non-federal entity may conclude that the amount it would recover thereby would be immaterial and not worth the effort needed to obtain it.”

Q6. True.

An NFE may concurrently receive federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor (see 2 CFR §§ 200.330 and 200.501(f)).

Q7. False.

OMB guidance specifically tasks the auditee (subrecipient) with the preparation of the Schedule of Expenditures of Federal Awards (see 2 CFR § 200.508(b)).

Q8. False.

Generally, OMB guidance prohibits an NFE entity from earning or keeping any profit resulting from federal financial assistance, unless expressly authorized by the terms and conditions of the federal award. FTA programs are cost-reimbursement type programs; therefore, profit is not an eligible expense.

But per Question 7, an NFE may receive federal funds as a recipient, subrecipient, and contractor. Under contract arrangements, when an NFE operates on a fee-for-service basis, profit may be permissible.

Q9. False.

The NFE has an obligation to “promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.”

Chapter 3: Foundation Elements: Accounting/Chart of Accounts

Q1. True.

One of the fundamental elements of the financial management system of any non-federal entity is the “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” (see 2 CFR § 200.302(b)(1)).

Q2. True.

Each FTA circular for the respective FTA program will provide the CFDA number.

Q3. True.

Another fundamental element of the financial management system of any non-federal entity is that the organization must maintain “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” (see 2 CFR § 200.302(b)(3)).

Q4. False.

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 and the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (see 2 CFR § 200.303).

Q5. True.

One of the key elements of a good program of internal control is management’s establishment of a culture of integrity and ethical values in the workplace (see “Standards for Internal Control in the Federal Government,” page 9).

Q6. True.

Written policies should also be approved by the entity’s governing board.

Q7. True.

The chart of accounts has significant bearing on the administration of federal awards. Federal grant management standards require that a non-federal entity's accounting systems be capable of generating "accurate, current, and complete disclosure of financial results of each Federal award or program" (2 CFR § 200.302(2)). Additionally, the chart of accounts can greatly assist in the identification and segregation of indirect costs. Finally, a chart of accounts that is aligned with cost allowability principles detailed in 2 CFR § 200.421 – 200.475 will greatly reduce the changes of submitting claims for ineligible expenses under the entity's federal grant awards.

Q8. False.

FTA mandates that reporting entities report revenues and expenses using USOA categories, but does not require the entity to use this system as the chart of accounts. When the native chart of accounts differs from the USOA, it is a best practice for the non-federal entity to develop a crosswalk, linking native account categories to the appropriate USOA account.

Q9. False.

While consistency in making year-to-year comparisons of financial results is always a requirement of the accounting system, the chart of accounts is designed to serve the needs of management. When required reporting is modified by a federal grant agency, the non-federal entity may make changes to the chart of accounts to facilitate accurate reporting.

Q10. False.

Like rural reporters, FTA does not dictate local accounting practices or the chart of accounts.

Q11. False.

The most recent changes to the USOA were effective with the FY 2017 reporting year.

Q12. True.

Functions codes are used to distinguish expenses by function. The four basic functions are Operations, Vehicle Maintenance, Facility Maintenance, and General Administration. Urban reporters use these functions; rural reporters do not.

Chapter 4: Direct and Indirect Costs

Q1. False.

Due the wide ranges of federal grants and non-federal entities, OMB does not offer prescriptive guidance on the classification of costs. OMB states: “There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards” (see 2 CFR § 200.412).

Q2. False.

Fuels consumed by a transit bus would exclusively benefit the organization’s transit program and would almost universally be classified as a direct expense.

Q3. True.

New terminology adopted in the Super Circular now refers to indirect costs as “F & A,” for Facilities and Administration. OMB notes: “the salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of OMB specified conditions can be met (see 2 CFR § 200.413(c)).”

Q4. True.

As noted in the answer to Question 1, a fundamental element of cost allowability is that a cost be accorded consistent treatment (see 2 CFR § 403(d)), primarily to avoid potential double charging.

Q5. False.

Not every transit agency will incur indirect costs. Larger transit agencies may have sufficient staffing in human resources, accounting, etc. to perform necessary functions as direct cost to the program. Alternatively, some agencies contract for these services specifically on behalf of the transit program. Again, these expenses would be considered direct costs.

Q6. True.

FTA Circular 5010.1E, Award Management Requirements, Chapter VI, § 6a, states that recipients (and subrecipients) that intend to seek payment for indirect costs must prepare a Cost Allocation Plan and/or an Indirect Cost Rate Proposal.

Q7. False.

Non-federal entities must submit their indirect cost rate proposals to the cognizant agency for indirect costs.

Q8. False.

According to 2 CFR § 200, Appendix VII, D1b, “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 departments or agencies 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.”

Q9. True.

Depending on the organizational status of the non-federal entity and the complexity, there are various methods of indirect cost rate computation, including the simplified method, the multiple allocation base method, the *de minimis* method, etc.

Q10. False.

The allocation base may vary depending on the needs of the non-federal entity. According to 2 CFR § 200, Appendix VII, C2c, “the distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, subcontracts in excess of \$25,000, participant support costs, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.”

Q11. False.

The *de minimis* rate can only be used by non-federal entities that have never received a negotiated indirect cost rate with the federal government, pursuant to 2 CFR § 200.414(f).

Q12. False.

The *de minimis* rate may be used indefinitely (2 CFR § 200.414(f)).

Q13. False.

The Super Circular (2 CFR § 200.68) states that Modified Total Direct Costs excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000. Other items may be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Chapter 5: Cost Allowability Under FTA Awards

Q1. False.

FTA relies on OMB cost guidance in all its programs. FTA notes that the date of contract execution will determine whether new or old guidance is applicable to the contract. FTA Circular 5010.1E, Chapter VI, § 2f(3)b)5, states that: 2 CFR § 200 will apply to all awards made on or after December 26, 2014; 2 CFR § 220, 225, and 230, as applicable, will apply to contracts executed before this date. Additionally, U.S. DOT program regulations, and the terms of the grant or cooperative agreement, or other written agreement with the subrecipient, must be followed in allowability and allocability of costs.

Q2. False.

A cost must be both reasonable and necessary as described 2 CFR § 200.403(a) before an entity can charge the item under a federal award. Other cost principles will apply as well.

Q3. False.

A cost must meet all seven (7) cost principles in 2 CFR § 200.403(a) – (g) in order to be considered eligible under federal grant awards.

Q4. True.

This requirement is stipulated in 2 CFR § 200.403(g).

Q5. False.

The Super Circular (2 CFR § 200.430(h)(8)(viii)) states that budget estimates determined before the services performed do not qualify as support for personnel charges to federal grant awards.

Q6. False.

FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 3b(7), states that preventive maintenance, defined as “all maintenance costs related to vehicles and non-vehicles” is allowable as a capital expense. Agencies should contact their state DOT to determine if this practice is permitted in their state.

Q7. False.

FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Appendix F, states that 50% of a turn-key contract may be treated as a capital expense. Agencies should contact their state DOT to determine if this practice is permitted in their state.

Q8. False.

If a Section 5311 subrecipient is in full compliance with applicable requirements of the Americans with Disabilities Act (ADA), including both fixed route and demand responsive service, the state DOT may fund the cost of ADA complementary paratransit at the 80% capital federal participation ratio, provided the amounts funds for such services across the state does not exceed 10% of a state's annual formula apportionment under Section 5311. Agencies should contact their state DOT to determine if this practice is permitted in their state.

Q9. False.

Dispatcher salaries and wages must be classified as an operating expense. FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 3c, states that “at a minimum, states must consider the following items as operating expenses: fuel, oil, drivers’ salaries and fringe benefits, dispatcher salaries and fringe benefits, and licenses.”

Q10. False.

FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 4c states that “while a state may not prohibit a subrecipient from using income from human service agency contracts as a source of local match, the state may elect to regard the degree to which a subrecipient demonstrates local financial commitment to the project from other sources of local funds as a rating factor in its discretionary allocation decisions.”

Q11. False.

Head Start funds have always been treated as a human service agency program by FTA; thus, revenues derived from providing service under contract to a Head Start agency would be eligible for use as local match provided all other conditions associated with this allowance were met (see FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter XI, § 19).

Chapter 6: Local Match

Q1. True.

FTA requires that all sources of local match be identified in the project application.

Q2. False.

FTA funds cannot be used to match other federal awards. Enabling legislation permits revenues derived from the purchase of service by state and local social service agencies to be used as match to most FTA grants, even if the source of those revenues is federal in nature.

Q3. False.

Federal regulation (2 CFR § 200.434(b)(1)) requires that local match be verifiable from the non-federal entity's accounting records.

Q4. True.

FTA Circular 9040.1G, "Formula Grants for Rural Areas: Program Guidance and Application Instructions," Chapter III, § 4h states that net income generated from advertising and concessions may be used as local match to the Section 5311 program. Similarly, FTA Circular 5010.1E, Award Management Requirements, Chapter VI, § 7b(5) states that for FTA programs, advertising is program income and can be used as local match. However, this same section stipulates that program income may not be used to reduce the non-federal share of the award from which it was earned, but may be used as non-federal share for future awards.

Q5. True.

Whether the university assessment is voluntary or mandatory, FTA Circular 5010.1E, Award Management Requirements, Chapter VI, § 7b states that such revenues may be used as local share. FTA Circular 9040.1G, "Formula Grants for Rural Areas: Program Guidance and Application Instructions," Chapter III, § 3c elaborates on this concept by stating "a voluntary or mandatory fee that a university or similar institution imposes on all its students for free or discounted transit service is not farebox revenue."

Q6. False.

FTA Circular 9040.1G, "Formula Grants for Rural Areas: Program Guidance and Application Instructions," Chapter III, § 4h states that a Non-Federal Entity "cannot use Section 5310 or other FTA funds as match for Section 5311 program funds. Even though funds are made available to the rural transit provider through a service agreement with a state or local social service agency or private social service organization, FTA funds may not be used as match because they are derived from a DOT program."

Q7. True.

FTA Circular 5010.1E, Award Management Requirements, Chapter VI, § 3d states that “amounts received under a service agreement with a state or local social service agency or private social service organization” may be considered as local match.

Q8. True.

Contributions and donations may be used as local match to FTA grants, provided they meet specific requirements associated with the type of donation or contribution.

Q9. False.

Generally, to be allowable as local match, a contributions or donations must be an integral and necessary part of an approved project or program. If this is not the case, the contribution or donation cannot be used as local match (2 CFR § 200.306(3)).

Q10. False.

FTA Circular 9040.1G, “Formula Grants for Rural Areas: Program Guidance and Application Instructions,” Chapter III, § 4h states that a non-federal entity “cannot use Section 5310 or other FTA funds as match for Section 5311 program funds. Even though funds are made available to the rural transit provider through a service agreement with a state or local social service agency or private social service organization, FTA funds may not be used as match because they are derived from a DOT program.”

Q11. True.

FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 4b(1), states that the federal share is 85% for the acquisition of vehicles for purposes of complying with or maintaining compliance with the Americans with Disabilities Act of 1990 (ADA; 42 U.S.C. 12101 et seq.) or the Clean Air Act (CAA; 42 U.S.C. 7401 et seq.). A revenue vehicle that complies with 49 CFR Part 38 may be funded at 85% federal share.

Q12. False.

How payments are made to the transit system by a college or university depends on the structure of the agreement between the institution of higher education and the transit system. FTA guidance, in FTA Circular 9040.1G, Formula Grants for Rural Areas: Program Guidance and Application Instructions, Chapter III, § 3c, states that “a voluntary or mandatory fee that a university or similar institution imposes on all its students for free or discounted transit service is not farebox revenue.”

Q13. False.

FTA Circular 9040.1G, “Formula Grants for Rural Areas: Program Guidance and Application Instructions,” Chapter III, § 4h states “...FTA funds may not be used as match because they are derived from a DOT program.”

Q14. True.

There are two scenarios where the rate of federal participation for capital expenses may be higher due to the amount of land in a state dedicated to public purposes. In the first scenario, authorized under 23 U.S.C. 120(b)(1), the rates are based on the ratio of designated public lands area to the total area in fourteen (14) selected states. In the second scenario, the ratio of the area of nontaxable Indian land, public domain lands (reserved and unreserved), national forest, and national parks and monuments to the total area of each state is used to compute higher rates of federal participation (see 23 U.S.C. 120(b)(2)). One limitation in the use of this second so-called “sliding scale” match provision is that the state DOT must already have in place signed agreements with FHWA to utilize this legislative provision.

Chapter 7: Contributions and Donations

Q1. False.

Costs of contributions and donations, including cash, property, and services, from the non-federal entity to other entities are unallowable (see 2 CFR § 200.434(a)).

Q2. False.

The value of services and property donated to the non-federal entity may not be charged to the federal award either as a direct or indirect (F&A) cost (see 2 CFR § 200.434(e)).

Q3. False.

Volunteer labor may be used as local match under FTA programs. The value for third-party volunteer services must be consistent with those paid for similar work by the non-federal entity (see 2 CFR § 200.306(f)).

Q4. True.

When valuating volunteer labor, if the non-federal entity pays for similar work performed by paid employees, then the existing pay scale must be used to place a value for the contributed labor. If the non-federal entity does not employ similar labor, then comparable wage rates paid in the service area of the organization should be used to establish a value (see 2 CFR § 200.306(e)).

Q5. True.

Special conditions apply to nonprofit organizations that dictate significant or material contributions be considered in the determination of the entity's indirect cost rate (see 2 CFR § 200.434(e)).

Q6. True.

This statement is true if the services provided by employees of the third-party organization are consistent with the type of labor performed on behalf of that employer donating the labor.

Q7. True.

The value of donated equipment must not exceed the fair market value of equipment of the same age and condition at the time of donation (see 2 CFR § 200.306(i)(2)).

Q8. True.

Donated property may be used as local match to an FTA grant; generally, FTA must review and concur in appraisals and review appraisals for acquisitions and dispositions of more than \$500,000. However, if the property is to be used as in-kind contributions, FTA must also concur (see FTA Circular 5010, Chapter IV, § 2a).

Q9. True.

The value of donated space must not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality (see 2 CFR § 200.306(i)(3)).

Q10. False.

Although there are some exceptions, FTA stipulates that program income may be used as local match, but not to the grant from which the program income was earned (see FTA Circular 5010, Chapter VI, § 7g).

Chapter 8: Cash Management

Q1. True.

Federal regulations require that all grant recipients maintain 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 2 CFR § 200.302(b)(4)).

Q2. False.

FTA has no rules regarding a requirement to have fareboxes.

Q3. False.

There are examples across the U.S. where the transit system does not charge a fare. Fare policies are strictly a local decision.

Q4. True.

While not a federal requirement, best practices in cash management dictate that transit systems pull the farebox vault at the end of every driver's shift.

Q5. False.

The Super Circular does not specify any parameters regarding the frequency of bank deposits. Daily deposits are recommended as a best practice.

Q6. True.

Good internal procedures dictate that at least two (2) persons are present at the initial farebox count. Both individuals should sign a cash tabulation sheet, agreeable to the total amount.

Q7. False.

Vaults should never be left in a vehicle overnight. In situations where the driver turns-in after all other personnel have left the transit offices, then the vault should be stored in a secure location until it can be opened and revenues counted the next business day.

Q8. False.

There are no exceptions or exemptions for the size of the organization when evaluating the effectiveness of internal controls in place at an organization.

Q9. True.

An effective control measure to monitor potential misuse of bus passes is to number all passes sold, record sold numbers, and periodically review used passes to ensure consistency with the sold passes.

Q10. True.

All transactions involving a sale of bus passes at the transit office should generate a receipt for the customer and a record of the sale for the transit agency.

Chapter 9: NTD Reporting Requirements

Q1. False.

Entities that only receive financial assistance under Section 5310 are not required to report to the NTD.

Q2. True.

Charter services, even if permitted under 49 CFR § 604, are not considered eligible public transit services and are not reported under the NTD.

Q3. False.

Recipients of Tribal Transit Program funds are obligated to report to the NTD.

Q4. True.

Recipients that receive Section 5307 program funds and operate more than 30 vehicles across all modes of service are treated as full reporters under NTD guidelines.

Q5. True.

Urbanized area data for services delivered within the urbanized area are directly reported to the NTD. Service and financial data for nonurbanized area are reported to the State.

Q6. False.

The service area is computed based on the ADA service area, defined as three-fourths of a mile around the fixed route service or three-fourths of a mile radius around each rail station.

Q7. True.

NTD data must be reported by “type” of service, either directly operated service or purchased service.

Q8. True.

NTD data must also be reported by mode of service.

Q9. True.

Revenues derived from advertising are considered “directly generated funding” for the purposes of NTD reporting.

Q10. True.

It is the responsibility of the entity that receives grant funds from a pass-through to report to the NTD.

Q11. False.

Contributions received by the reporting agency must be reported to the NTD.

Q12. False.

Rural reporters must report vehicle revenue hours and vehicle revenue miles to the NTD.

Q13. False.

If a portion of an intercity route is funded, NTD data must be submitted on the whole route, not just the funded portion of the route.

Q14. False.

All NTD data must be submitted based on the accrual basis of accounting.

Chapter 10: Audit

Q1. False.

Expenditure of federal funds in excess of \$750,000 in any one fiscal period corresponding to the non-federal entity's fiscal year will trigger the audit requirements (see 2 CFR § 200.501(a)).

Q2. True.

A non-federal entity can simultaneously be a recipient, subrecipient, and a contractor with respect to federal funds. Only those funds received as a recipient or subrecipient count towards the \$750,000 threshold (see 2 CFR § 200.501(f)).

Q3. False.

Generally, loans and loan guarantees will count towards the audit threshold. There are some limited exceptions to this rule that relate to accounting by institutions of higher learning (see 2 CFR § 200.502(b)).

Q4. False.

It is the responsibility of the non-federal entity to prepare financial statements. When the NFE lacks this capacity, they can use an audit firm to prepare the statements, but cannot use the same firm to conduct the audit. Management's responsibility is the underlying foundation on which audits are conducted. Without management having responsibility for the financial statements, the necessary separation that determines the auditor's independence and objectivity regarding the client and the audit engagement would not be as clear. As such, the federal government, professional audit organizations, and others have typically issued guidance to auditors limiting the role in this area.

Q5. True.

An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by the Super Circular if the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs (see 2 CFR § 200.509(b)).

Q6. False.

The Schedule of Expenditures of Federal Awards (SEFA) just includes all federal awards (see 2 CFR § 200.510(b)).

Q7. False.

The SEFA must list all federal funds, whether received as a direct recipient or as a subrecipient of a pass-through agency (see 2 CFR § 200.510(b)(2)).

Q8. False.

The non-federal entity is tasked with preparing a summary schedule of prior audit findings, including the corrective action plan and the audit finding reference number. This summary must be broken down by year (see 2 CFR § 200.511(a)).

Q9. False.

All findings must be addressed. If the finding was fully corrected, this must be noted. If the finding was not corrected or only partially corrected, the summary schedule must include an explanation as to the current status (see 2 CFR § 200.511(b)(1)-(3)).

Q10. False.

Management is required to document, in its response to each finding, including the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

Q11. True.

These deadlines are correct (see 2 CFR § 200.512(a)). The submission must be executed by a senior level executive of the organization, along with an acknowledgement that the Federal Audit Clearinghouse is authorized to make the reporting package available to the public.

Q12. True.

In this opinion, the auditor states that financial statements are clearly presented and accurate. This is the best outcome for the auditee.

Q13. True.

The auditor will review the financial statements covering all programs; the obligations with respect to determining compliance will be limited to those programs determined to be major programs (see 2 CFR § 200.515(c)(2)).

Q14. True.

The Super Circular clearly permits pass-through entities to evaluate and arrive at a management decision on an audit finding (see 2 CFR § 200.516(b)).

CLASS EXERCISES

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Class Exercise 1

Cost Item	Direct?	Indirect?
Fuel used for revenue transit vehicles		
Salary of agency receptionist who also fields overflow telephone calls to the transit system		
Salary of the agency Executive Director		
Agency facility rent - administrative facilities		
Federal and state taxes paid on fuel		
Agency telephone expenses		
Corporate liability insurance premiums		
Agency paid retirement contribution for the Director		
Transit revenue vehicles physical damage insurance coverage premiums		
Dry cleaning/laundry expenses for driver uniforms		

Class Exercise 2

Account	Description	Costs, This Period	Excluded from MTDC	Eligible for MTDC
5011	Operators' Salaries and Wages	\$131,458		
5012	Operators' Paid Absences	10,516		
5013	Other Salaries and Wages	28,564		
5014	Other Paid Absences	2,285		
5015	Fringe Benefits	19,202		
5024	Audit Services	24,500		
5031	Fuel and Lubricants	34,233		
5034	Supplies	2,675		
5041	Electric	1,687		
5051	Physical Damage Insurance	6,459		
5101	Purchased Transportation	40,000		
5220	Facility Lease	9,000		
6821	Network Server	5,500		
6822	Office Computer	1,299		
Total		\$317,378		

Class Exercise 3

Cost Item	Allowable?
Fuel used for revenue transit vehicles	
Salary of agency receptionist who also fields overflow telephone calls to the transit system	
Salary of the agency Executive Director	
Creation, printing, and distribution of a general agency brochure that does not specifically mention any of the agency's services	
Federal and state taxes paid on fuel	
Account receivable from human service agency written off as bad debt	
Flowers purchased as table centerpieces at the annual transportation banquet	
Agency paid retirement contribution for the Director	
Lobbying costs to representation the agency's interest in the transportation re-authorization bill before Congress	
Dry cleaning/laundry expenses for driver uniforms	

Class Exercise 4 - Part A

Donation	Allowable?	Valuation Options (Pick One)	Value
<p>Hewlett Packard donates six computers to the government. As the Transit Department has the oldest computers in the County, the County Administrator gives the machines to the Transit Department.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> The Transit Director recalls seeing an advertisement for the same, similarly equipped model in a newspaper ad for \$899 per unit.	
		<input type="checkbox"/> The Transit Manager calls on the owner of a local computer shop to provide an appraisal of the machines. He supplies a written appraisal of \$850.	
		<input type="checkbox"/> The County Administrator provides the transit department with a letter from Hewlett Packard provided with the donation that the computers have a value of \$800 per unit.	

Class Exercise 4 - Part B

Donation	Allowable?	Valuation Options (Pick One)	Value
<p>Hewlett Packard also provides a factory technician to travel to Ohio to install and connect the computers. The technician spends three hours installing the hardware.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> The County has its own IT department so these costs cannot be claimed as in-kind.	
		<input type="checkbox"/> The County claims the costs as an in-kind expense and values the contribution based on the salary and fringe of a comparable employee of the IT department (\$35.00 per hour).	
		<input type="checkbox"/> The County claims the costs as an in-kind expense with a signed in-kind contribution letter sent from Hewlett Packard to the County noting the value (salary and fringe) of the technician of \$65.00 per hour.	

Class Exercise 4 - Part C

Donation	Allowable?	Valuation Options (Pick One)	Value
<p>A local artist finds a picture of system bus from the 1950s and develops a painting of the bus. He frames the painting and presents the art to the system on the 50th anniversary of the transit system.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> The transit manager obtains an appraisal of the painting for \$400 and \$100 for the frame and claims this as in-kind.	
		<input type="checkbox"/> The transit manager, recalling FTA's art in transit program, claims the painting based on the artist's statement that, if offered for sale, he would ask \$800 for the painting.	
		<input type="checkbox"/> The transit system does not claim this gift as a contributed expense.	

Notes

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3. 2 CFR Part 200, Appendix XI – Compliance Supplement. Office of Management and Budget, June 2019. https://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf
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