



Department of Transportation

Financial Management Oversight



OPENING REMARKS





Agenda Day One

9:00 – 9:15	Opening Remarks
9:15 – 9:45	FMO Program Course Objectives/ Introductions
9:45 – 10:15	FMO System Review Process
10:15 – 10:30	BREAK
10:30 – 11:00	Grantee Regulatory Environment
11:00 – 12:00	Common Rule
12:00 – 1:00	LUNCH



Agenda Day One

1:00 – 2:30	FTA Circulars – Part I
2:30 – 2:45	BREAK
2:45 – 3:15	FTA Circulars – Part II
3:15 – 4:30	OMB Circular A-87
4:30	Wrap-up



Agenda Day Two

8:30 – 9:45	Cost Allocation Plans
9:45 – 10:00	BREAK
10:00 – 11:15	FMS Controls
11:15 – 11:45	Self-Assessment Form
12:00 – 1:00	LUNCH
1:00 – 2:30	Self-Assessment Form -- continued
2:30 – 2:45	BREAK
2:45 – 3:30	Financial Capacity
3:30	End of Seminar

A photograph of a transit station. In the foreground, a silver turnstile is visible with a white sign that says "EXIT" in green letters above a green circle containing a white upward-pointing arrow. The background is a blue brick wall with a red brick border at the top and bottom. A person in a blue shirt is blurred in the background, moving through the station.

Vision

*Public Transportation is the
Mode of Choice in America!*

U.S. Department of Transportation
Federal Transit Administration



Mission

***Improve Public Transportation
For America's Communities***

**U.S. Department of Transportation
Federal Transit Administration**

FTA Oversight Activities



- General Reviews
 - Triennial Reviews
 - State Management Review
- Specialized Reviews
 - Project Management Oversight (PMO)
 - Financial Management Oversight (FMO) Reviews
 - Procurement System Reviews
 - Safety Reviews
 - Civil Rights Reviews
 - Americans With Disabilities Implementation

FTA Seminars



- Triennial Review Workshop
- State Management Review Seminar
- Financial Management Oversight Seminar
- Third Party Procurement Seminar
- National Transit Data Base Seminar
- Drug and Alcohol Program Seminar

Seminar Objectives

- Learn how to establish and maintain financial management systems that meet the requirements of the Common Rule (49 CFR, Part 18)
- Gain an understanding of Financial Capacity requirements and Financial Capacity Assessments

Manager/COTR, FMO Program

Linda Barnes,

Federal Transit Administration (FTA)

Financial Management Oversight Program

Ms. Barnes works for the FTA's Office of Oversight in Washington, DC. Her responsibilities include all financial management oversight and grantee oversight assessment program functions. Ms. Barnes has over 10 years experience working in the area of oversight.

Instructors

***John Milligan, CPA, Managing Principal,
Milligan & Co., LLC***

Mr. Milligan started the firm in 1985. Prior to 1985, he worked for nine years at PriceWaterhouseCoopers (formerly Coopers & Lybrand.) Mr. Milligan has performed various special reviews for the FTA, is currently participating in various financial capacity reviews, and worked on the Best Practices and Procurement System Review manuals.

Instructors

***Charles Holmes, CPA, Principal,
Milligan & Co., LLC***

Charles Holmes is a principal at Milligan & Co., LLC. He has over 20 years of diversified public accounting experience. Prior to joining Milligan & Co., LLC, he worked at PriceWaterhouseCoopers for five years. Mr. Holmes has served as senior manager or principal on more than 60 FMO reviews. Mr. Holmes has also performed specialized assignments for the FTA.

Instructors

***Donna McCoy, CPA, Senior Manager,
Milligan & Co., LLC***

Ms. McCoy is currently a senior manager at Milligan & Co., LLC. She has over 16 years of diversified public accounting experience. Prior to joining Milligan & Co., LLC, she worked at PriceWaterhouseCoopers for three years. Ms. McCoy has served as manager for over 50 FMO reviews. Ms. McCoy has also performed specialized assignments for the FTA.

Instructors

***Henry G. Kirschenmann,
SGI***

Mr. Kirschenmann was formerly the deputy assistant secretary for procurement assistance and logistics for the U. S. Department of Health and Human Services. For over 20 years, Mr. Kirschenmann has played a key role in the development and issuance of policies and procedures related to grants and contracts awarded by the Federal government.

Executive Assistant/Event Coordinator

***Carolyn Mims-Clark,
Milligan & Co., LLC***

Ms. Clark is currently Executive Assistant & Event Coordinator at Milligan & Co., LLC. She is Project Coordinator for the Federal Transit Administration (FTA)/Financial Management Oversight (FMO) Seminars. Ms. Clark performs logistical coordination and contract negotiation with hotels, conference centers and other meeting facilities. She is also responsible for facilitating the on-site management of the 2 day workshop.

Introductions

My name is...



FINANCIAL MANAGEMENT OVERSIGHT PROGRAM



Financial Management Oversight (FMO) Program

- Initiated – 1991
- Contractor-Assisted Program
- Following Independent Professional Standards

Types of FMO Reviews

- Full Scope Systems Review
- Follow-up Review
- Special Assignment
- Financial Capacity Assessments



Financial Management Systems Review Process

FMS Full Scope Review Process Overview

- FMS Review Scope vs. Single Audit
- Description of Full Scope FMS Review
- What Constitutes a Financial Management System?





FMS Review Scope vs. Single Audit

FMS Review Scope vs. Single Audit

	Single Audit	FMS Review
Scope	All Federal Expenditures	FTA Grants Expenditures
Audit of:	Financial Statements	Internal Controls/Compliance
Internal Controls	No Opinion	Opinion
Compliance	With Laws & Regulations for Financial Statement Impact	Compliance with Common Rule and FTA Circulars
Materiality	Based on Total Federal Expenditures	Based on FTA Grant Expenditures



Description of Full Scope FMS Review

Description of the FMS Review Process

- Regional Desk Review
- Assessment phase (1 week)
- Testing phase (2-4 weeks)
- Reporting phase
 - Draft Report
 - Grantee Response
 - Final Report

Description of the FMS Review Process

Reporting Phase

- Draft Report 30 – 60 days after exit conference
- Grantee Response – 25 days
- Final Report – 17 days

Structure of The FMS Review Report

- Accountants' Report
- Section I - Description of Grantee
- Section II - Material Weakness Conditions
- Section III - Reportable Conditions
- Section IV - Advisory Comments
- Section V - Summary of Findings
- Section VI - Common Rule Criteria
- Section VII - Grantee Response

A sample report can be found at the end of this section.

FMS Findings

Material Weakness

Conditions that preclude the financial management system from providing reasonable assurance that errors or irregularities in amounts that would be material in relation to the applicable grant(s) will be prevented or detected in a timely manner.

FMS Findings

Reportable Conditions

- Significant deficiencies which could adversely affect the entity's ability to
 - record
 - process
 - summarize, and
 - report financial and related data consistent with the requirements of the Common Rule
- They are not considered to be material weaknesses as previously defined

FMS Findings

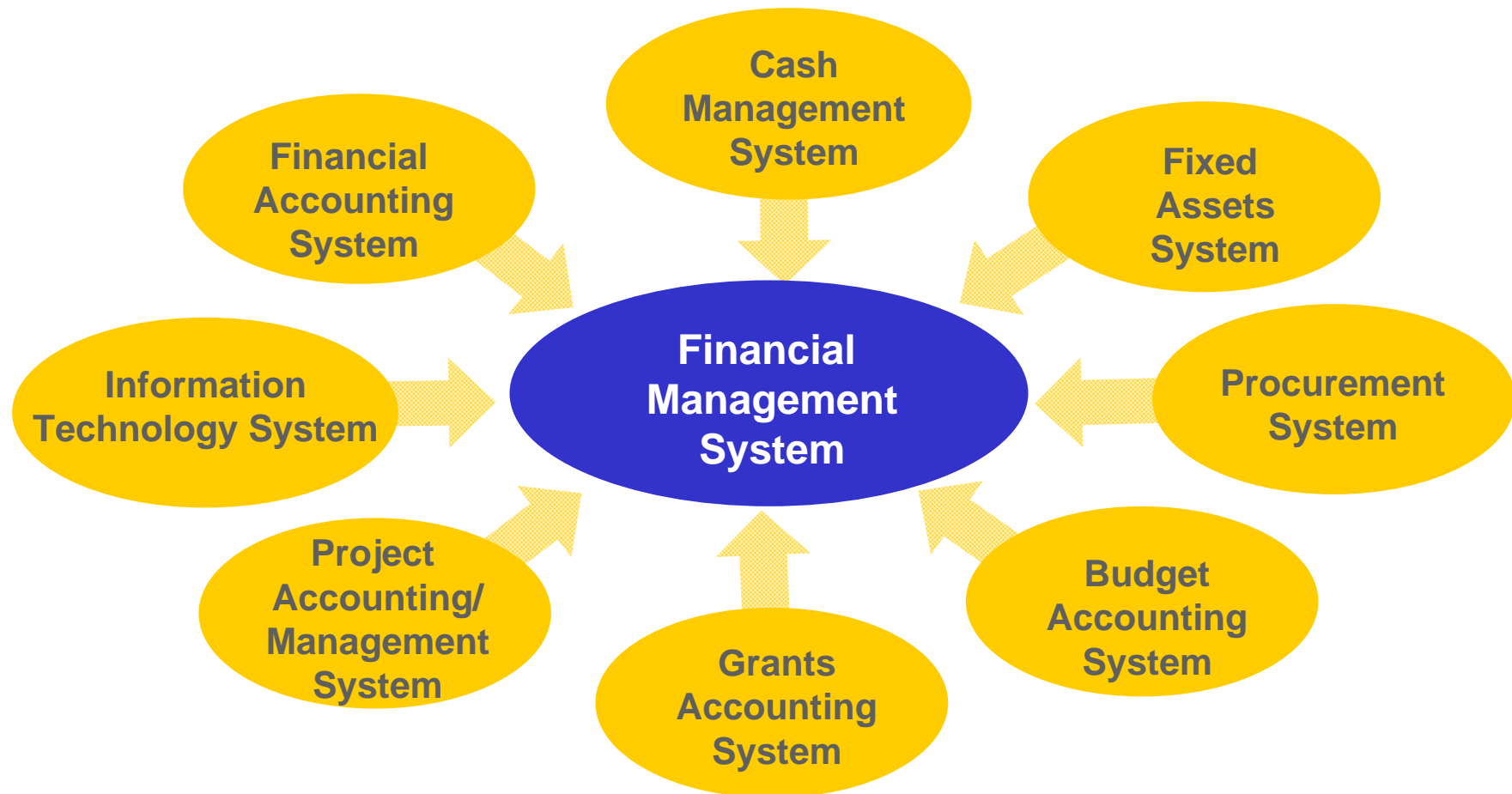
Advisory Comments

- Do not represent deficiencies in the financial management system
- Opportunities for improvements in both the financial management controls and operations

What Constitutes a Financial Management System?



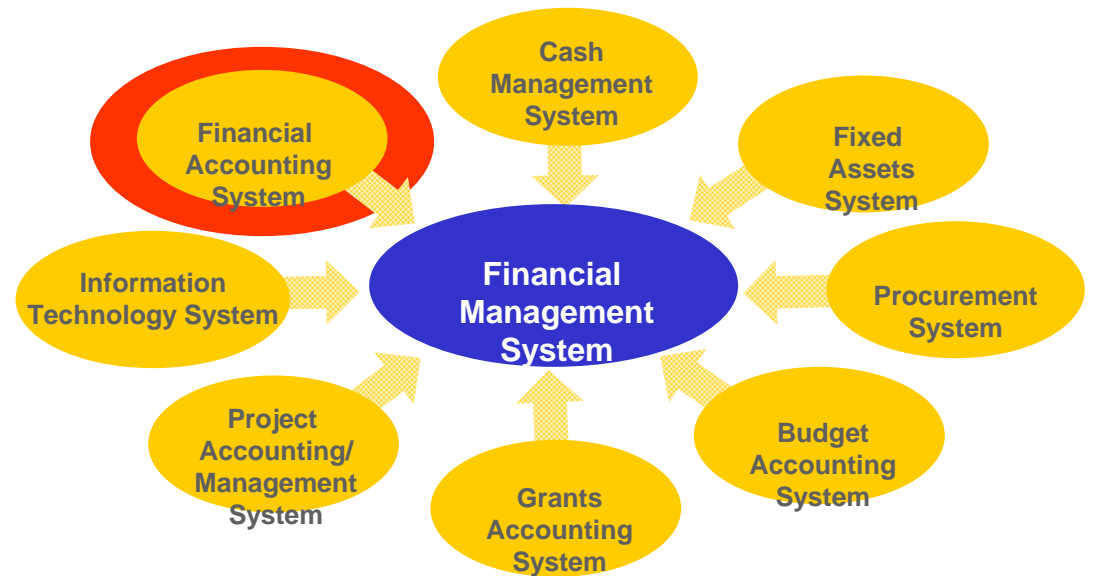
What Constitutes a Financial Management System?



Financial Accounting System

Objectives:

- Ensure that accurate, current and complete disclosure of the results of financially assisted activities is presented



Financial Accounting System

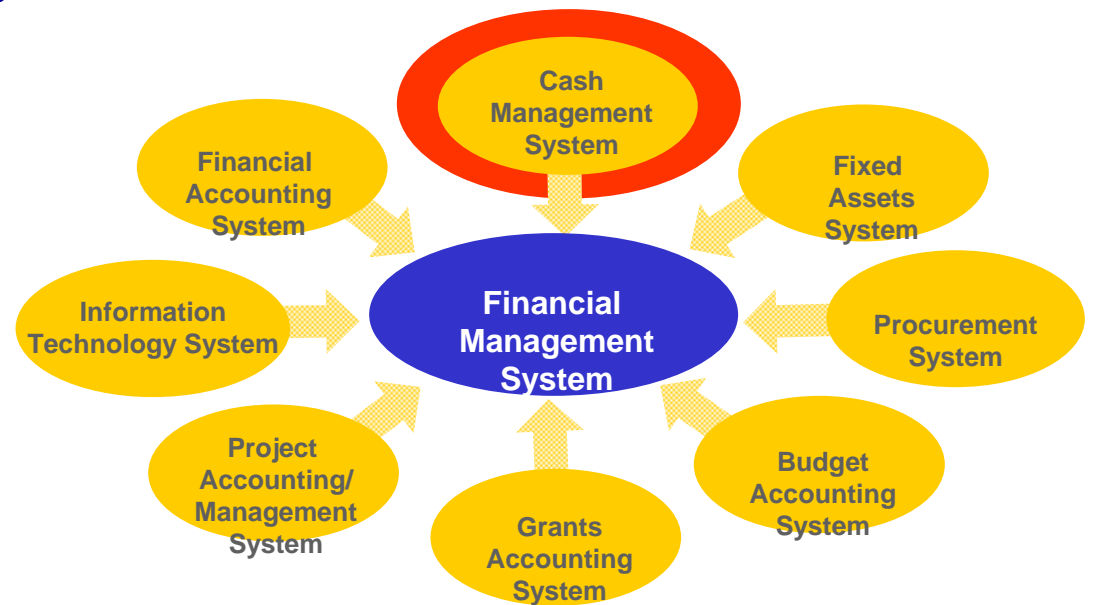
Objectives:

- Ensure that financial transactions are supported by appropriate source documentation
- Ensure that the general accounting management process is adequately controlled and the financial position of the grantee is properly reported to interested parties

Cash Management System

Objective:

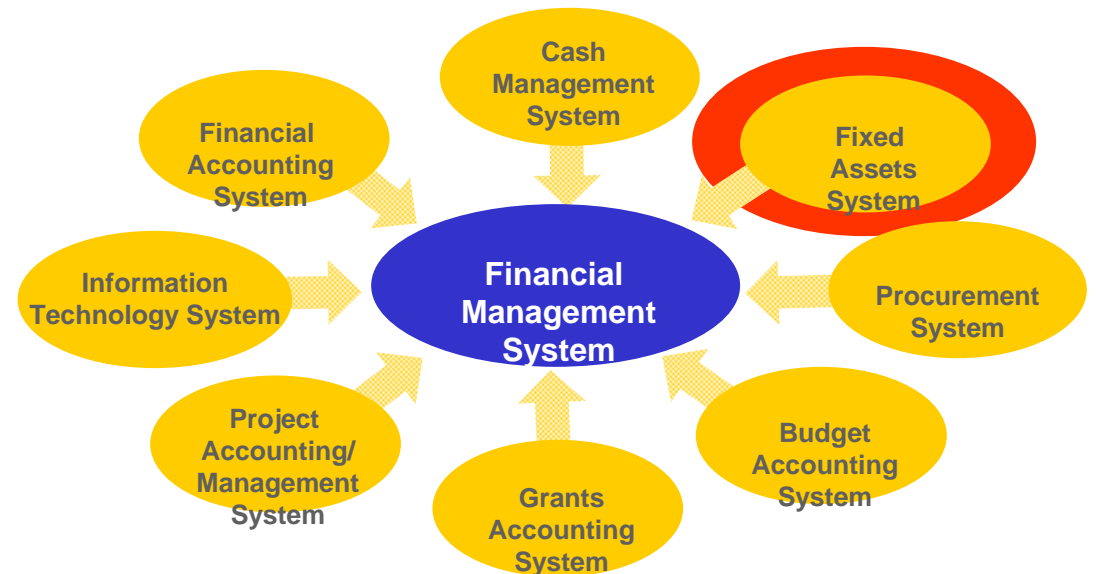
- Ensure that the funding process is adequately controlled and ECHO requests are processed adequately and timely



Fixed Asset System

Objective:

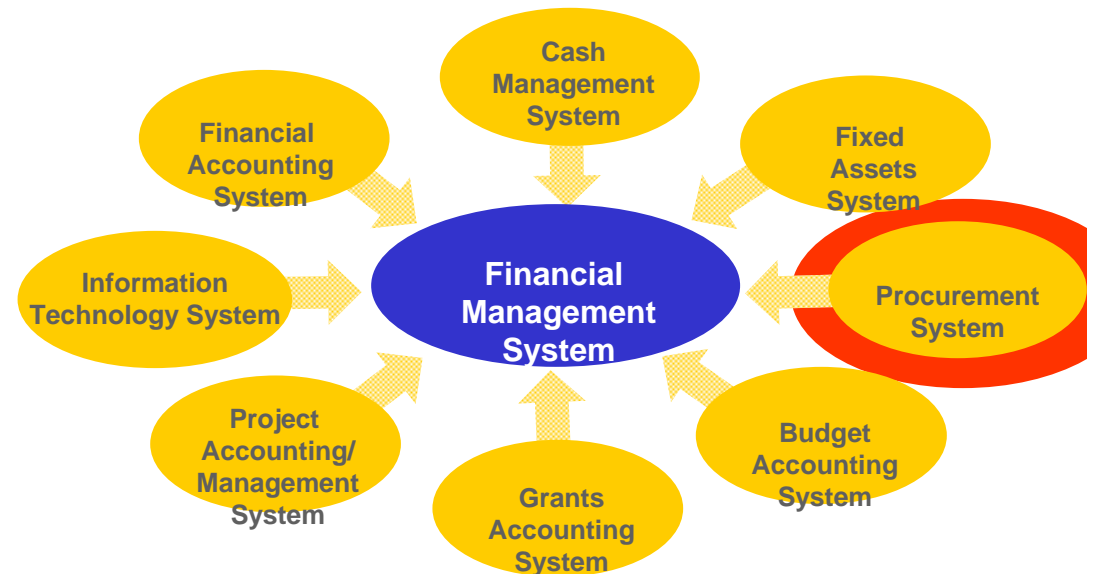
- Ensure that fixed assets funded with federal grants are adequately controlled, tracked, reported and maintained in accordance with federal regulations and FTA guidelines



Procurement System

Objective:

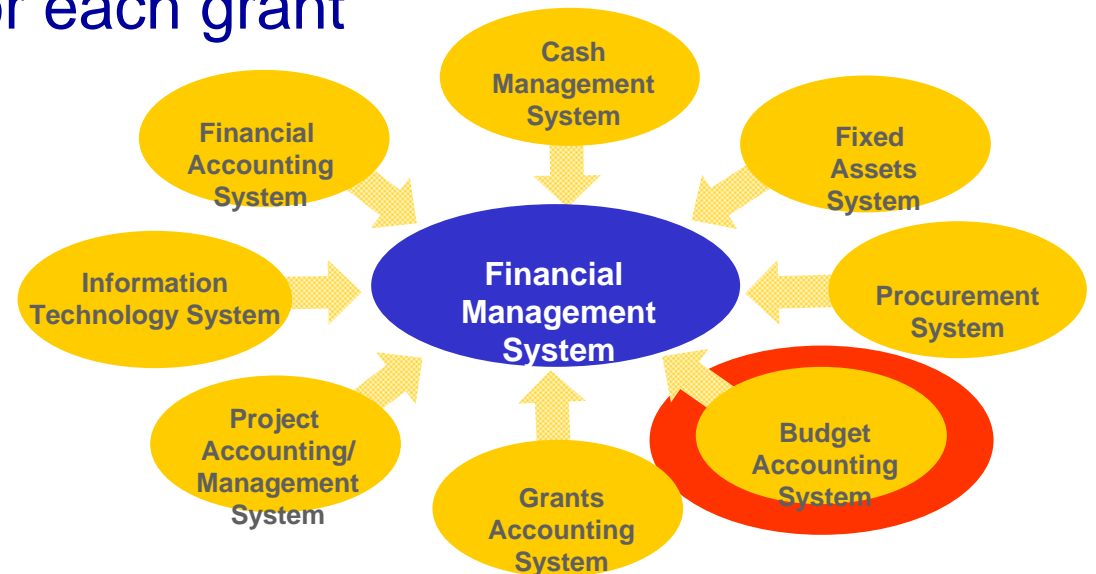
- Ensure that adequate controls are in place so that any costs applied to FTA grants/projects are reasonable, allowable, and allocable



Budget Accounting System

Objective:

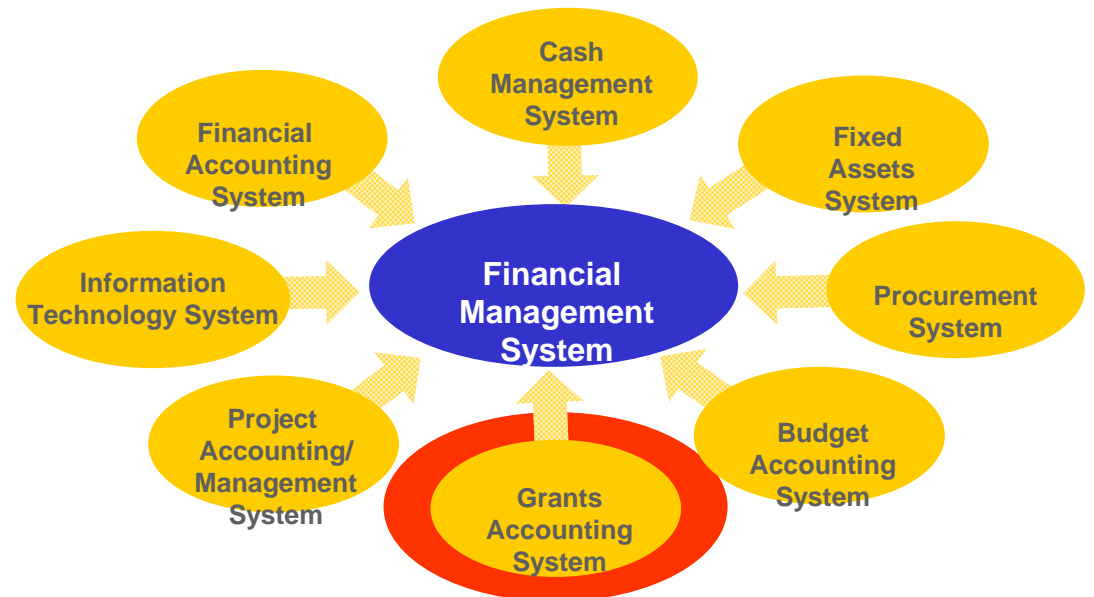
- Ensure that the Grantee has adequate internal controls and procedures in place for monitoring and reporting of actual outlays in comparison with budgeted amounts for each grant



Grants Accounting System

Objectives:

- Ensure that only acceptable charges are posted to grant-funded projects



Grants Accounting System

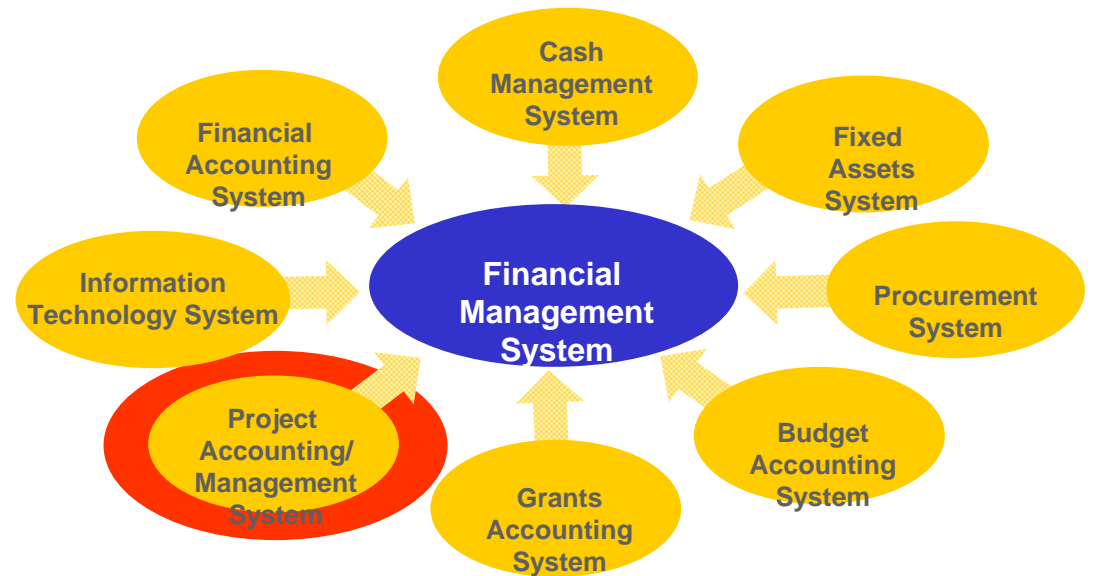
Objectives:

- Ensure that controls are adequate to generate accurate grant records and budgets
- Ensure that authorized grant activity is posted to records in a timely, accurate and complete manner

Project Management System

Objectives:

- Ensure that the grants management system properly reflects the status of projects through interface with the financial management system



Project Management System

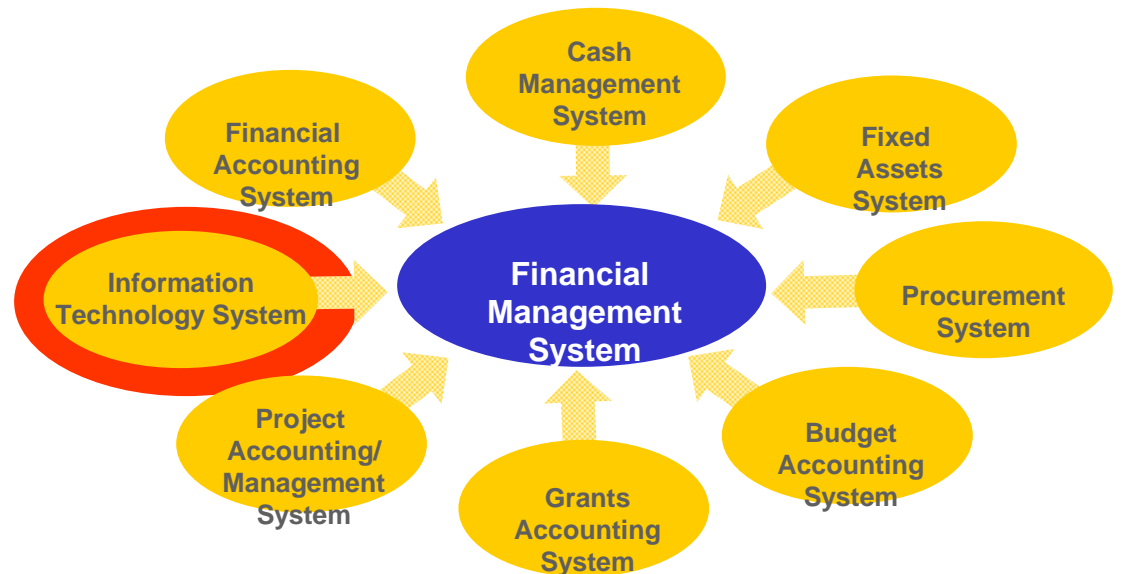
Objectives:

- Ensure that project changes can be identified and addressed in a timely manner

Information Technology System

Objectives:

- Ensure that the needs of the grantee's system are adequately supported



Information Technology System

Objectives:

- To plan and prepare for the protection of grantee assets and records from damage, loss or unauthorized use

A high-angle photograph of a white ceramic coffee cup filled with dark coffee, resting on a matching white saucer. The cup and saucer are positioned on a light-colored surface. A long, dark shadow is cast from the cup and saucer towards the right side of the frame, indicating a light source from the left. The text "AM BREAK" is overlaid in white, bold, sans-serif capital letters on the right side of the image, partially overlapping the shadow.

AM BREAK

The image features a pair of metal scales of justice, positioned on the left side. The scales are slightly out of focus, with the pans hanging down. The background is a light blue-grey color with a large, faint, dark 'X' shape that spans across the entire frame. The overall aesthetic is clean and professional, suggesting a theme of law, regulation, or balance.

GRANTEE REGULATORY ENVIRONMENT

Grantee Regulatory Environment

State and Local Directives

Regional Office Interpretations

Other Headquarters Directives

FTA Circulars

OMB Circulars

Code of Federal Regulations

U.S. Code

Public Laws

Constitution

Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment



Grantee Regulatory Environment

State and Local Directives

Regional Office Interpretations

Other Headquarters Directives

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U.S. Code

Public Laws

Constitution



**CODE OF FEDERAL
REGULATIONS**

Code of Federal Regulations

The Code of Federal Regulations consists of rules made by federal agencies and executive departments of the federal government.

CFR Title 49 – Transportation

Part

1. Organizing and delegation of power and duties
3. Official seal
18. Uniform administrative requirements for grants and cooperative agreements to State and local governments
19. Uniform administrative requirements for grant and agreements with institutions of higher education, hospitals, and other non-profit organizations
24. Uniform relocation assistance and real property acquisition for Federal and federally assisted programs

Office of Management and Budget (OMB)

- OMB Circulars are established to convey uniform guidance in the form of instructions and information to executive departments and establishments. The Executive Office of the President uses them to exercise managerial and policy direction over federal agencies.
- Even though it is mandatory for the federal agencies to follow the Circulars, certain requirements can be waived at the discretion of the OMB.

OMB Circulars Applicable to Grants Management

- A-21 Cost Principles for Educational Institutions
- A-87 Cost Principles for State, Local, and Indian Tribal Governments
- A-122 Cost Principles for Non-Profit Organizations
- A-133 Audits of States, Local Governments, and Non-Profit Organizations

FTA Circulars

- FTA Circulars are issued in order to outline specific requirements and/or give grantees guidance on how to carry out the Common Rule, federal statutes, Executive Orders and other FTA policies
- The FTA reserves the right to waive certain requirements, at their discretion

FTA Circulars

Grants Management

- 4200 – PROCUREMENT
 - C 4220.1E Third Party Contracting Requirements
- 5000 – GRANTS MANAGEMENT – GENERAL
 - C 5010.1C Grant Management Guidelines
 - C 5200.1A Full-Funding Grant Agreements Guidance
 - C 5620.1 Guidelines for Preparing Environmental Assessments

FTA Circulars

Grants Management – cont'd

- 9000 – CAPITAL FACILITIES AND FORMULA GRANT PROGRAMS
 - C 9030.1C Urbanized Area Formula Program: Grant Application Instructions
 - C 9040.1E Nonurbanized Area Formula Program Guidance and Grant Application Instructions
 - C 9070.1E The Elderly and Persons With Disabilities Program Guidance and Application Instructions
 - C 9300.1A Capital Program: Grant Application Instructions
 - C 9400.1A Federal Transit Administration Design and Art in Transit Projects
 - C 9500.1 Intergovernmental Review of FTA Planning, Capital and Operating Programs and Activities

Dear Colleague Letters

Dear Colleague Letters are sent out by the FTA in order to communicate certain policy updates and revisions to their grantees. The policies communicated via these letters are eventually integrated into the FTA Circulars when the Circulars are re-issued

Other FTA Policies and Procedures

In addition to the Code of Federal Regulations, Federal Register notices, Circulars and Dear Colleague letters, the FTA communicates its policies and procedures to grantees via the following means:

- FTA Agreements, such as The FTA Master Agreement, Grant Agreements, Supplemental Agreements, Cooperative Agreements, Federal Transit Program Fiscal Year Requirements
- The FTA website, www.dot.fta.gov, which serves as a resource for all the items communicated above
- The FTA also updates their website with any new information and documents that they publish

Regional Office Interpretation

FTA Circular 5010.1C states:

“FTA Regional Offices retain responsibility for management oversight of most grant projects.”

State and Local Directives

In many instances Federal policy incorporates, by reference, state and local policy.

A photograph of a light-colored piggy bank with a coin slot on its back, casting a large shadow on a light surface. The piggy bank is positioned on the left side of the frame, and its shadow extends towards the right. The text "COMMON RULE FINANCIAL MANAGEMENT STANDARDS" is overlaid in white, bold, uppercase letters on the right side of the image.

**COMMON RULE FINANCIAL
MANAGEMENT STANDARDS**

Common Rule – “Standards For Financial Management Systems”

- Not a choice or option
- Required for all grant recipients and sub-recipients
- Standards cannot be waived by FTA

Standards Addressed By Common Rule 49 CFR 18.20

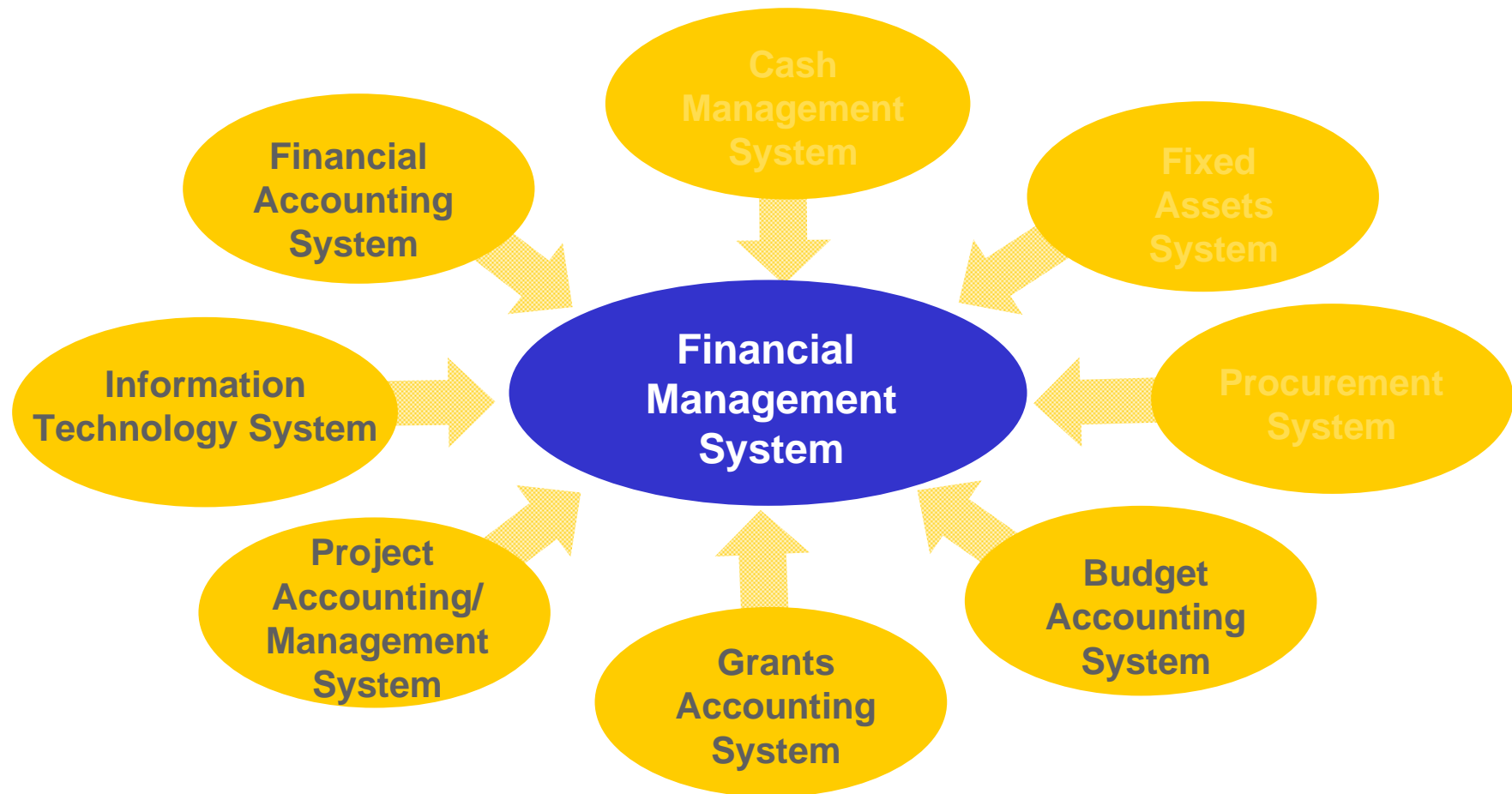
- Financial Reporting
- Accounting Records
- Internal Control
- Budget Control
- Allowable Cost
- Source Documentation
- Cash Management
- Project Changes **

**Special FTA Requirement,
49 CFR 18.30

Financial Reporting

18.20(b)(1) Financial Reporting. Grantees must have procedures to provide reasonable assurance that “accurate, current, and complete disclosure of the financial results of financially assisted activities (are) made in accordance with the financial reporting requirements of the grant or subgrant.”

Financial Reporting System Impact



Financial Reporting

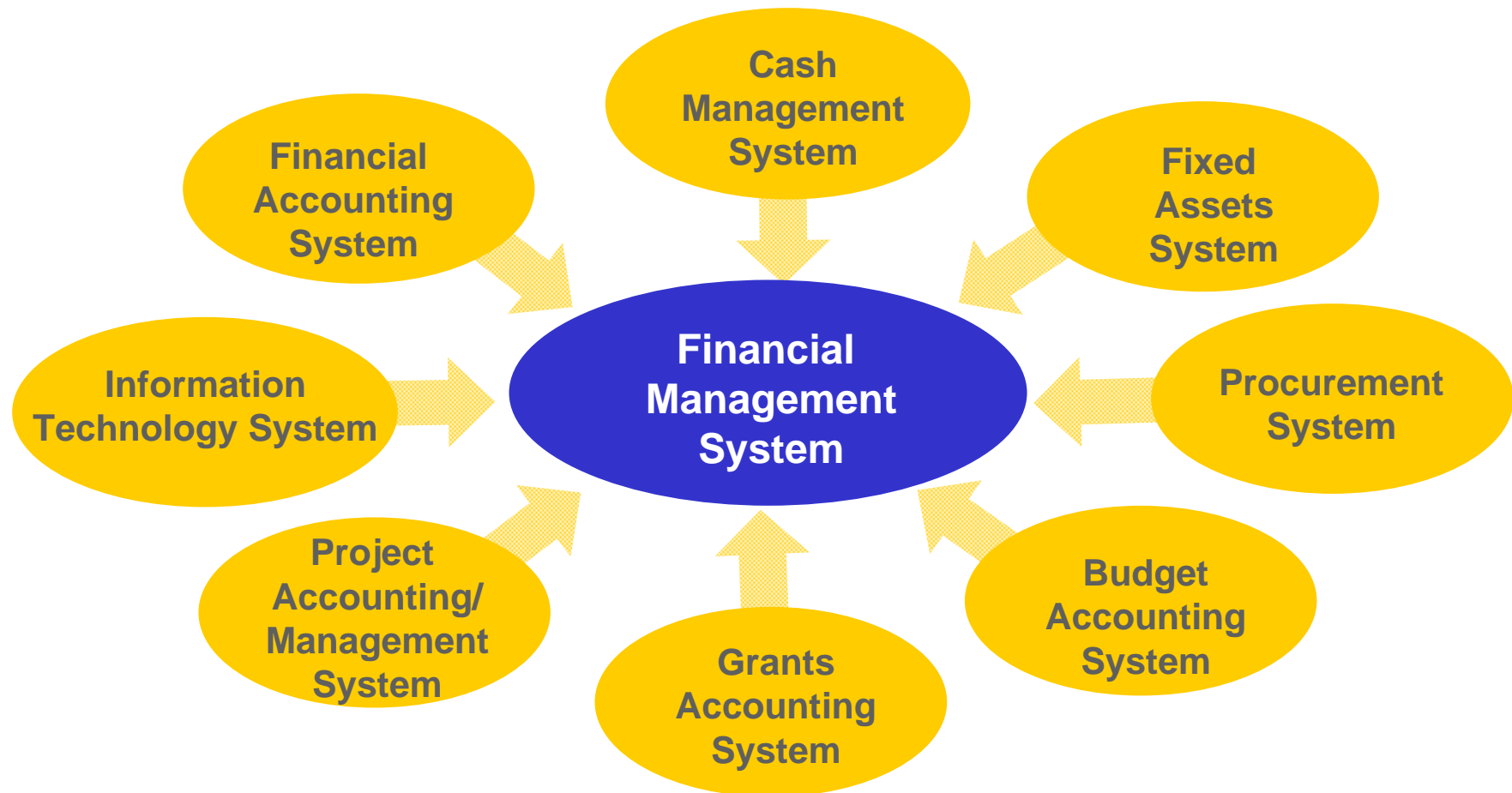
Common Conditions

- Reported amounts of federal expenditures not in agreement with general ledger.
- Incorrect reporting of encumbrances.

Accounting Records

18.20(b)(2) Accounting Records. “Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income”. The grantee’s project financial accounting system must interface with the grantee’s overall financial management system.

Accounting Records System Impact



Accounting Records

Common Conditions:

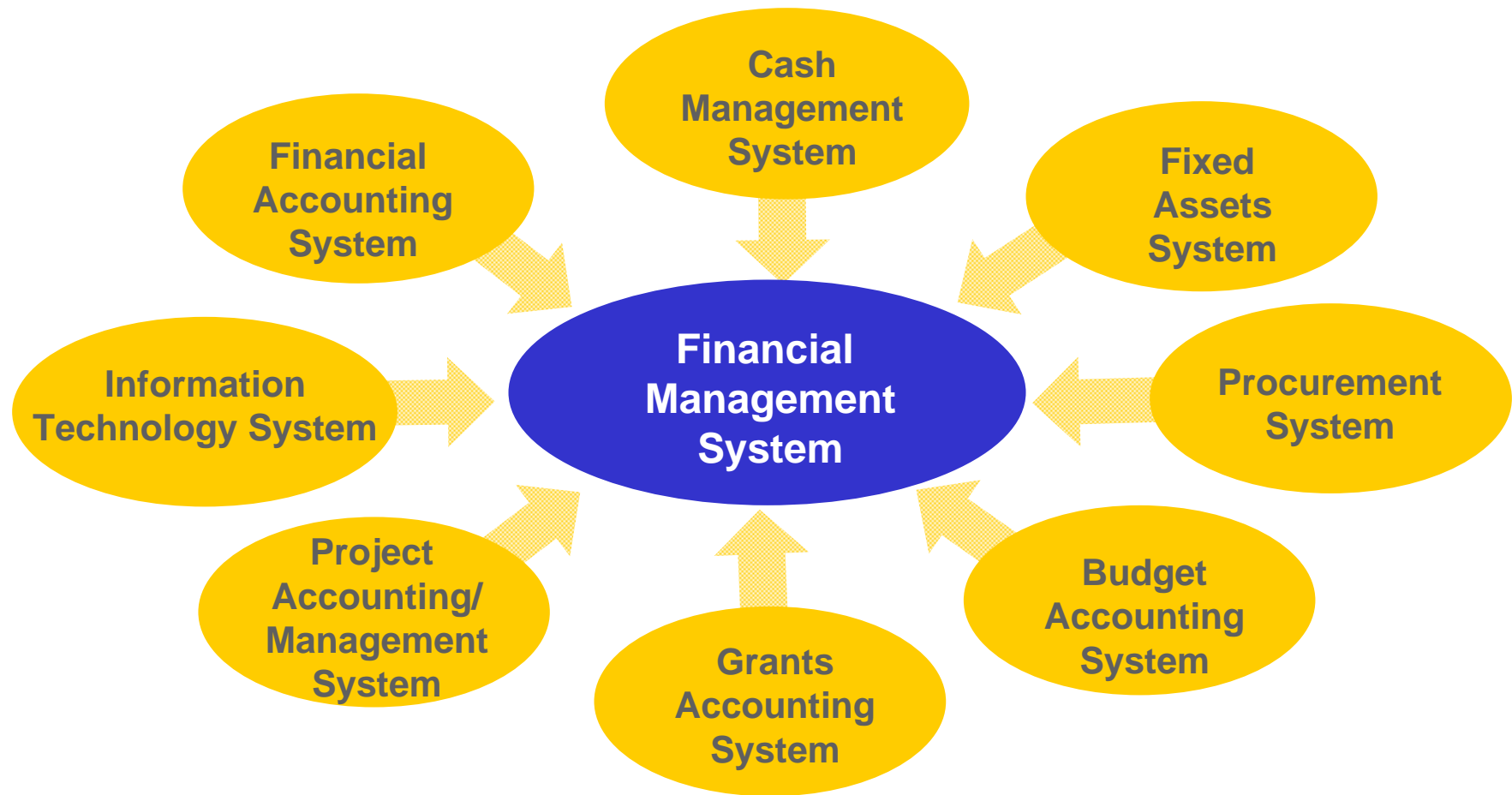
- Grantee does not have a formal record retention policy.
- Accounting system not being used and grant expenditures tracked using an Excel spreadsheet.

Internal Controls

18.20(b)(3) Internal Control. “Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.”

Specifically with respect to fixed asset records, 49 CFR 18.32(d) requires that grantees and subgrantees maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and include procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedures are implemented for such assets.

Internal Control System Impact



Internal Control

- Broad term for accountability, segregation of duties, and checks and balances
- Separate assets from the record keeper.

Internal Control

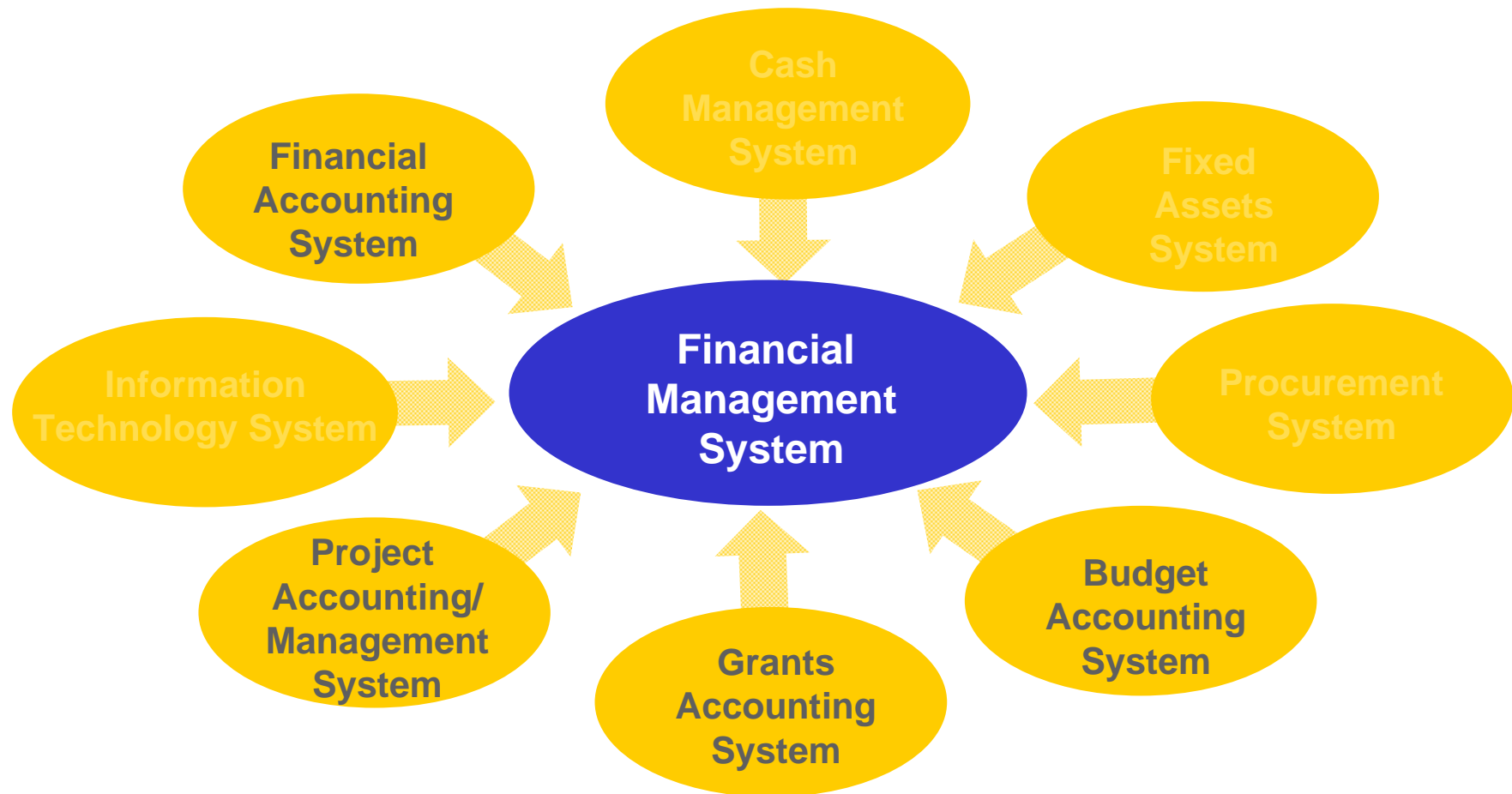
Common Conditions:

- The grantee lacks a comprehensive disaster recovery plan
- Reconciliation of the federal cash account should be documented and approved
- Same individual maintains general ledger, reconciles cash accounts, receives cash, and maintains accounts receivable ledger

Budget Control

18.20(b)(4) Budget Control. “Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.”

Budget Control System Impact



Budget Control

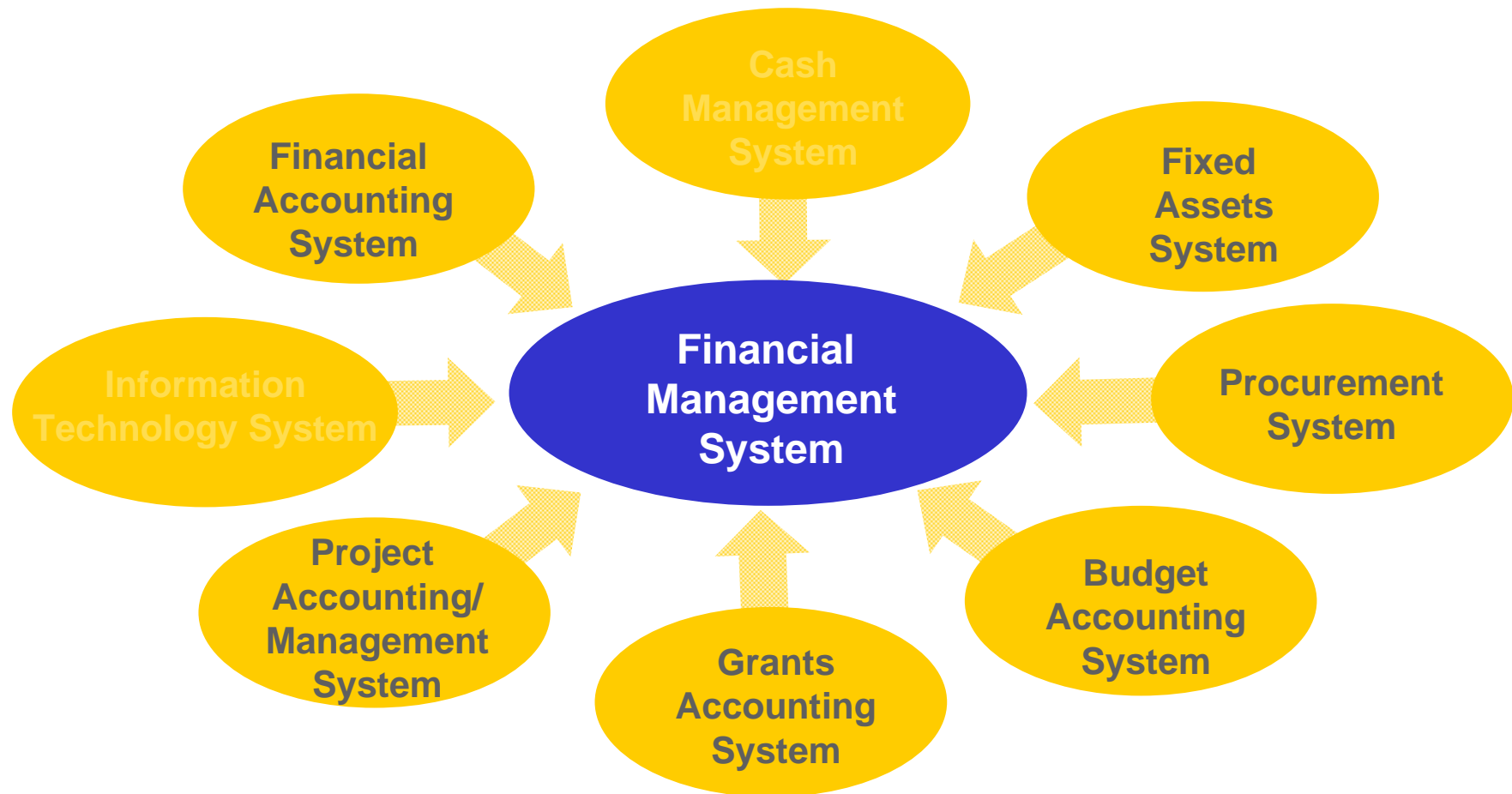
Common Conditions:

- Budget to actual analysis not performed for capital budget
- Explanations for budget variances not documented

Allowable Cost

18.20(b)(5) Allowable Cost. Grantees must have procedures to provide reasonable assurance that OMB cost principles, Circular A-87(incorporated within 49 CFR 18.22), agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.” If indirect costs are being charged to the grant, Grantees must prepare a cost allocation plan that is approved by its cognizant agency.

Allowable Cost System Impact



Allowable Cost

Common Conditions:

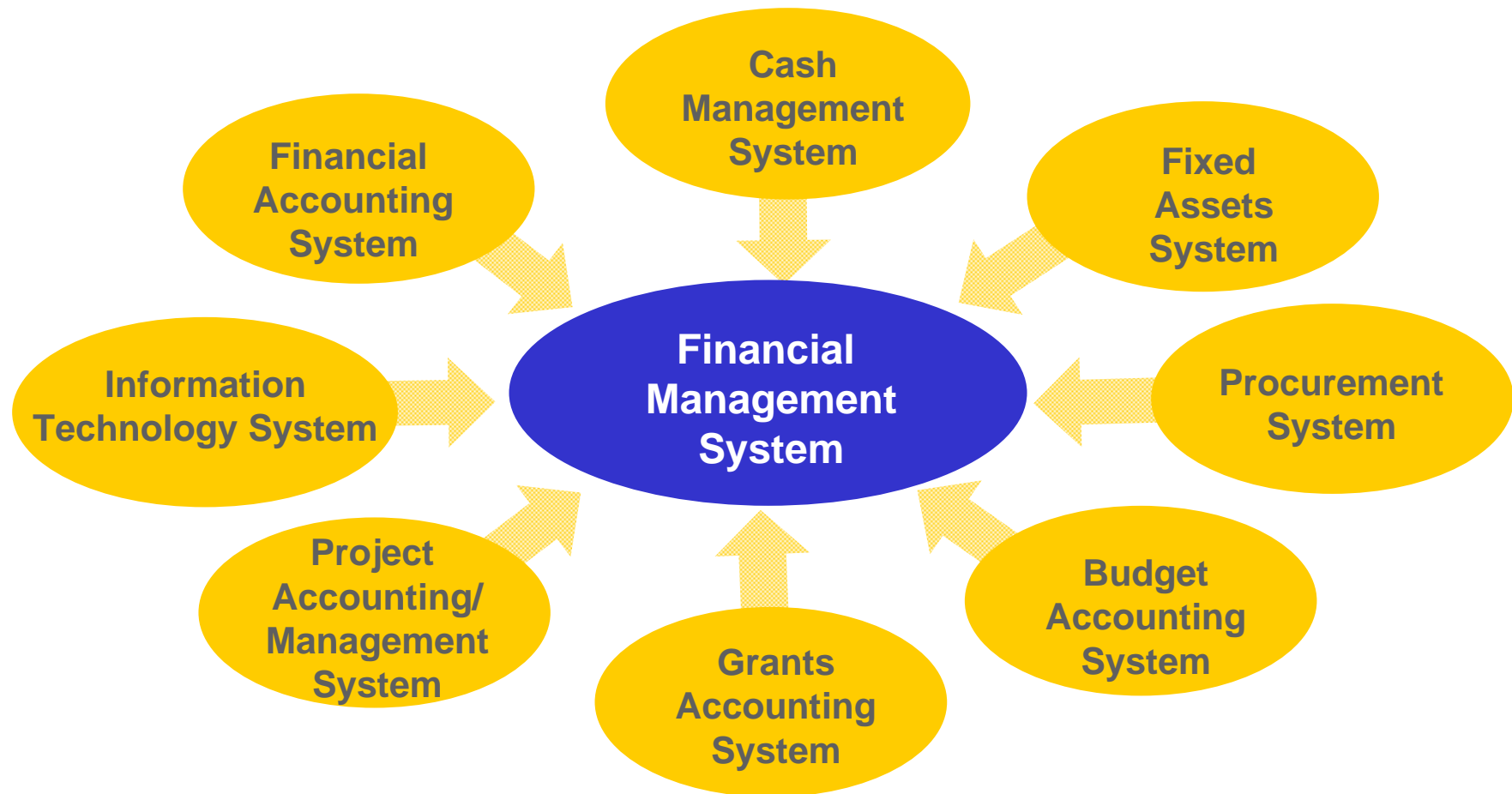
- Force Account Plan and Fringe Benefit Rate not documented or approved.
- Grantee reported amounts of federal funding in excess of eligible expenditures.

Source Documentation

18.20(b)(6) Source Documentation.

“Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

Source Documentation System Impact



Source Documentation

Common Conditions:

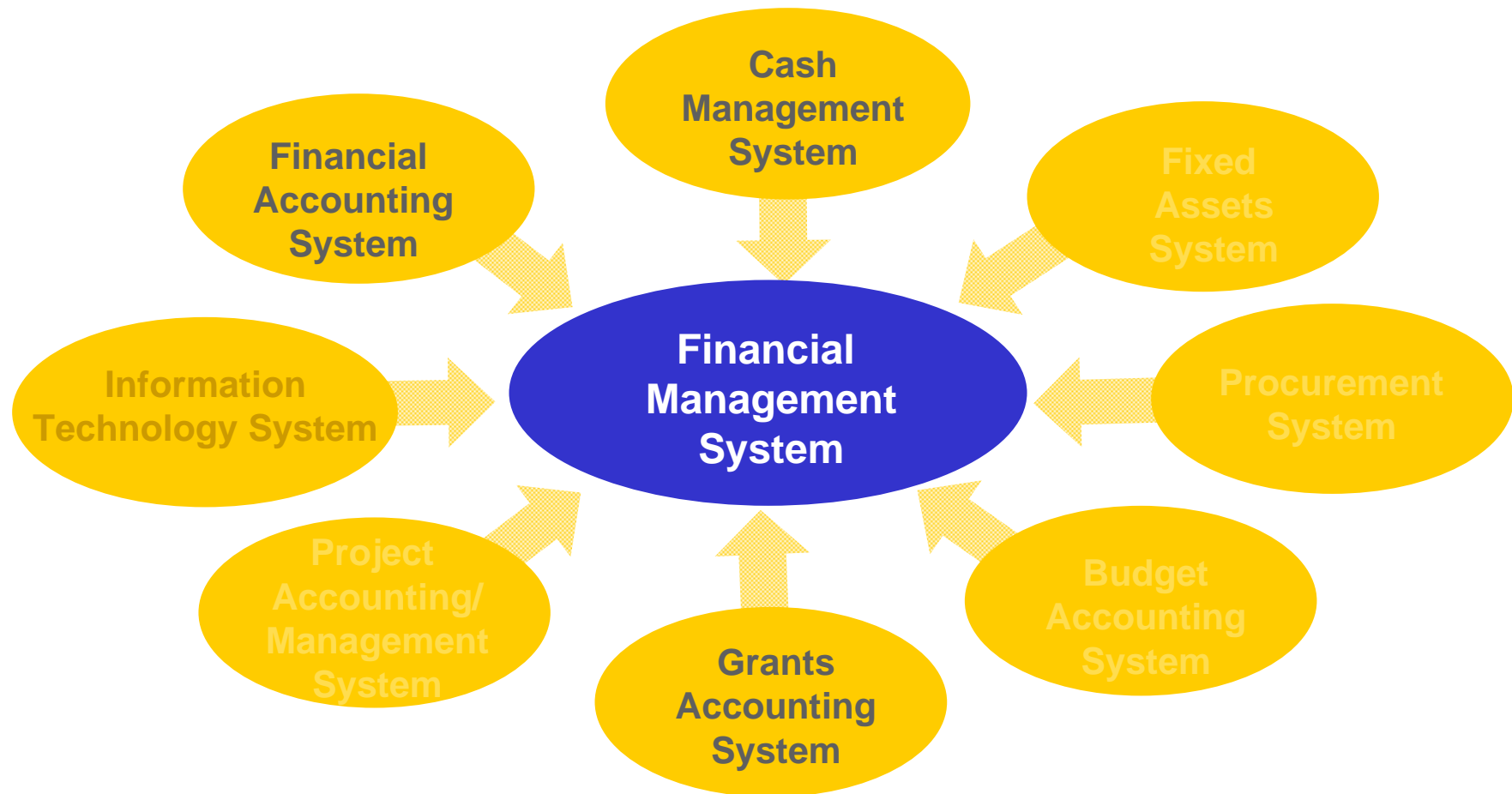
- Justification for sole source procurement was not documented.
- Monthly reconciliations of accounts receivable and accounts payable prepared, but documentation is not retained.

Cash Management

18.20(b)(7) Cash Management.

“Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantee’s cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements. Grantees must monitor cash draw downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.”

Cash Management System Impact



Excessive Cash Rules

- Cash received from FTA must be disbursed within three business days
- If not disbursed within three days, cash becomes excess funds and must be returned to FTA

Exceptions:

- If drawing early by mistake and funds will be disbursed within 7 calendar days; or
- If <\$10,000 will be disbursed within 30 calendar days then funds may be retained, but interest accrues beginning with day four

Cash Management

Common Conditions:

- Grantee drew down federal funds in excess of need and did not remit overdraw to FTA.
- Preventive Maintenance funds draw down 1/12 per month rather than as expenses incurred.

Other Cash Management Topics

- Farebox Collection Procedures
- Controls Over ECHO Drawdown Process
- Controls Over Cash in Banks

Other Cash Management Conditions

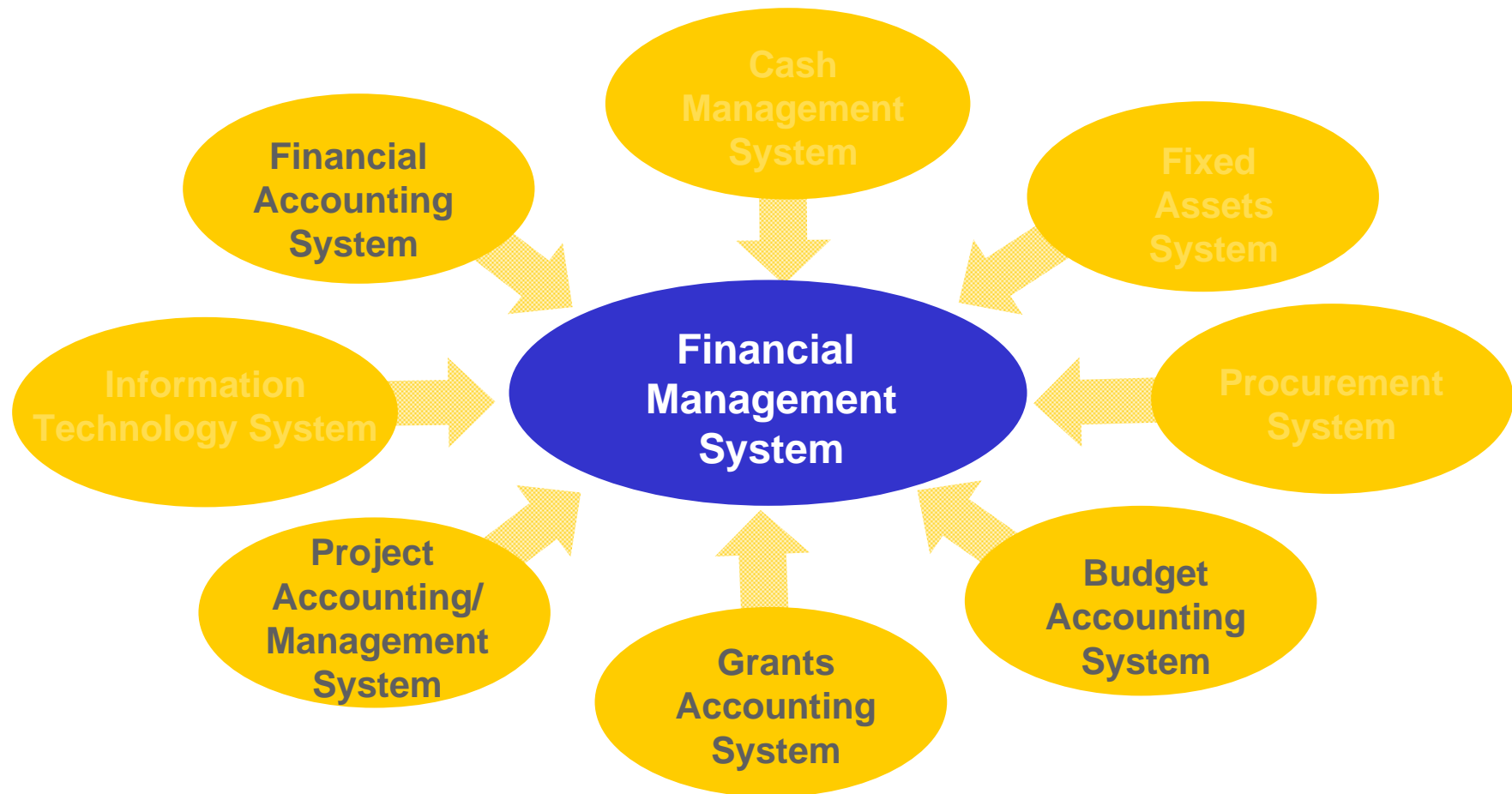
Common Conditions:

- No reconciliation of ECHO drawdowns to bank records and TEAM
- ECHO passwords shared by more than two individuals
- Bank reconciliations not performed in a timely manner
- No reconciliation of farebox cash collected to GFI records

Project Change

18.30 Changes. “Unless waived by the awarding agency, certain types of post-award changes in budgets and projects shall require the prior written approval of the awarding agency.”

Project Change System Impact



Project Change

Common Conditions:

- Change orders on federally funded projects are not reviewed for federal funding eligibility
- Required FTA approval is not being obtained for project scope changes.

LUNCH BREAK





FTA Circulars and their Relationship to Financial Management Systems Reviews

FTA Circulars and Their Relationship to Financial Management Systems Reviews

As previously noted, FTA circulars are issued to establish FTA policy and implement the requirements of the common rule. The two circulars that have the biggest impact on the Financial Management Systems (FMS) Reviews are circulars 5010.1C and 4220.1E.

FTA Circular 5010.1C as it Relates to the FMS Review

- FTA Circular 5010.1C Applicable to FTA Grants at 49 U.S.C. Chapter 53, Sections:
 - 5309 Capital Program
 - 5303 Metropolitan Planning
 - 5307 Urbanized Area Formula Program
 - 5313(b) State/Planning and Research

FTA Circular 5010.1C as it Relates to the FMS Review

Chapter I	Project Administration and Management
Chapter II	Management of Real Property, Equipment and Supplies
Chapter III	Financial Management
Chapter IV	Payment Procedures
Appendix	Joint Development Projects

FTA Circular 5010.1C as it Relates to the FMS Review

- Chapter I - Project Administration and Management
- General - FTA Regional Offices retain responsibility for management oversight of most grant projects

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Chapter Topics Include:

- Grant Approval
- Grantee Responsibilities For Grant Admin & Management
- Civil Rights Responsibilities
- Reporting Requirements
- Grant Modification
- Procurement
- Rolling Stock Purchases
- Design and Construction
- Sales Proceeds
- Program Income
- Special Requirements
- FTA Oversight
- Suspension and Termination
- Close-Out Procedures
- Retention and Access Requirements for Records

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Approval

- Absent pre-award authority, grantee may only incur costs as of obligation date slated in Notification of Grant Approval.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grantee Responsibilities

Administration of and management of grant in compliance with grant agreement and applicable FTA circulars and regulations.

Includes:

- funds passed through to subrecipient
- submission of annual certification and assurances

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

- Reporting Requirements
 - Milestone/Progress Reports (Quarterly)
 - Transit Enhancement Reports
 - Population of 200,000 or more receiving 5307 funds
 - Financial Status Report (Quarterly)
 - Disadvantaged Business Enterprise
 - Reports of Significant Events

Due 30 days after reporting period

- FSRs and Milestone reports due annually for:*
 - Non-urbanized area formula
 - Elderly and persons with disabilities
 - Metropolitan Planning
 - State Planning
 - Research Programs

FTA Circulars

Financial Management Systems

- Circular 9070.1E
 - Applicable to Elderly Persons with Disabilities (5310) Grants
- Circular 9040.1F
 - Applicable to Nonurbanized Area Formula Grants (5311)

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Purpose - Financial Status Report

- Primary source of financial information for the FTA
- FTA monitors the status of all open grants on a quarterly basis
- Key indicators of potential problems
 - Excessive unobligated balances
 - No financial activity for more than two quarters

Financial Status Report

Financial Status Report (XX-03-1234)

File View Window Find Help

Summary Financial Status Remarks & Comments

Line:	Transactions:	Previous	This Period	Cumulative
A.	Total Outlays:	13,953,188	1,620	13,954,808
B.	Recipient Share of Outlays:	3,054,638	324	3,054,962
C.	Federal Share of Outlays:	10,898,550	1,296	10,899,846
D.	Total Unliquidated Obligations:			1,204,275
E.	Recipient Share of Unliq. Oblig.:			240,855
F.	Federal Share of Unliq. Oblig.:			963,420
G.	Total Federal Share (C + F):			11,863,266
H.	Total Federal Funds:			11,908,000
I.	Unobl. Bal. of Fed. Funds (H - G):			44,734.00

Basic Requirements

- Prepare report on accrual basis
- Include financial activities for program of projects, including any operating assistance
- Submit report on TEAM no later than 30 days after the end of each reporting period

Total Outlays

- Total Outlays (Line A) includes:
 - sum of actual cash disbursement for direct charges
 - indirect expense incurred
 - value of in-kind contributions
 - net increase (decrease) in amounts owed by the grantee (accounts payable) [applicable for those who maintain books on a cash basis.]
- Less:
 - Farebox revenues, rebates, refunds, or other credits (if operating assistance received).

Examples of Total Outlays

- Cash disbursements for direct charges
 - Project construction costs
 - Fuel
 - Driver wages
 - Other operating expenses
- Indirect expense incurred
 - Overhead costs (e.g., rent, utilities, insurance)

Examples of Total Outlays

- In-kind contribution
 - Use of facilities
 - Land, right-of-way
 - Services (e.g., legal, architectural)
- Accounts Payable
 - Goods received, not yet paid for
 - Accrued expenses (e.g., payroll, benefits)

Share of Outlays

- Federal and recipient share of outlays (Lines B & C)
 - Pro-rata share according to the grant agreement per each project
 - Report actual total project costs, not just up to the budgeted total costs

Total Unliquidated Obligations/Encumbrances

- Obligations incurred, but for which an outlay has not yet been recorded (Line D – Financial Status Report)
- Examples:
 - Signed contract for purchase of buses, however, delivery has not yet occurred
 - Contract for construction services not yet rendered
 - Open purchase orders
 - Goods and services not yet received

Sample Grant Budget

Part 3: Budget

Project Budget

	<u>Quantity</u>	<u>FTA Amount</u>	<u>Elig. Proj. Cost</u>
<u>SCOPE</u>			
11101 BUS - ROLLING STOCK	1	\$3,320,000	\$4,150,000
<u>ACTIVITY</u>			
111304 PURCHASE < 30 FT BUS	1	\$160,000	\$200,000
PURCHASE 40 FT BUS 10	10	\$1,840,000	\$2,300,000
TROLLEY CARS 6	6	\$1,320,000	\$1,650,000
<u>SCOPE</u>			
11301 BUS - STATION/STOPS/TERMINALS	1	\$40,000	\$50,000
<u>ACTIVITY</u>			
113104 ENGINEERING AND DESIGN, AND ENVIRONMENTAL ASSESSMENT		\$25,000	\$31,250
113304 CONSTRUCTION OF A PARK AND RIDE LOT	1	\$15,000	\$18,750
117691 LAND ACQUISITION		\$0	\$0

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification -- Three Possible Actions:

- Administrative Amendment: change in a grant agreement initiated by FTA to clarify terms of grant
- Budget Revision: transfer of funds between or among activity line items within a Scope or Scopes in a grant
- Full Grant Amendment: change in the scope, purpose of Federal participation in cost of project (Note: full amendment essentially means a new grant)

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification

Administrative Amendment

- May be used to change, or clarify the terms, conditions or provisions of a grant.
 - Changes required by law
 - Change year or type of funds
 - Transfer equipment from one grantee to another
 - Reflect change in grantee's name
 - Change grant time period

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Budget Revision

- Defined as any change within the scope of the original grant.
- May be a transfer of funds within a project or among projects within an approved grant.
- Could also include the addition or deletion of an activity.*
- Cannot be used to materially change the purpose or intent, i.e., scope, or Federal dollar amount of the grant.
- When a transfer is performed between capital/operating/planning activities, a financial purpose code (FPC) change is made by the FTA project manager. Grant recipients should be aware of this when initiating drawdowns.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Budget Revision

Prior approval required when:

- Transferring funds between operating and capital/planning activities, or between activity line items with different Federal matching ratios
- Federal share of the grant exceeds \$100,000 and the cumulative amount of project funds to be transferred between or among activities, (including all budget revisions since the last one specifically approved by FTA) exceeds twenty percent of the total grant. Proposed budget revisions for planning grants which exceed thirty percent require prior FTA approval
- Transferring funds between activities with different Federal matching ratios

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Budget Revision

Prior approval required when:

- The revision is for the addition or deletion of capital expenditures. The grantee should refer to OMB Circular A-87, attachment B for selected items of cost. Paragraph 19.c of that attachment indicates criteria for requiring FTA approval
- Increase or reduce purchasing rolling stock by more than 2 units, but less than 20%*
- Change size or physical characteristics of the activities specified in a grant (depending on how grant scope was written)
- Advance 5307 contingency project that is not in year 1 of TIP

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Grant Amendment

- Required for:
 - Increase in Federal share
 - Change in grant scope or purpose
- Subject to the same application requirements as a new grant request.
- Can only be done if obligated funds have not lapsed.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Grant Amendment

Change in scope

- Materially alter the objective of the approved project (i.e. change the scope);
- Changes in rolling stock that exceeds 20%

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Grant Budget Modification – cont'd

Lapsed Funds

“...the authority to obligate program funds lapses...at the end of the funds period of availability...”

“Proposed changes in the scope of a grant cannot be done with lapsed funds, however, budget revisions are still allowable.”

The year of funding can be found on the last page in the approved project budget under the accounting classification

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Things to Remember for Grant Application:

- Prepare grant scope descriptions carefully
- Anticipate problems, plan for contingencies, list alternative projects
- Watch grant time limits to prevent lapsing of funds when changes/ amendments may be needed

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Sales Proceeds

“When a grantee disposes of equipment with a unit value \geq \$5,000, or supplies with an aggregate residual value of more than \$5,000, the grantee must remit to FTA the Federal portion of original participation in market value or net sales proceeds, whichever is greater.”

“Real property must be appraised for its market value.”

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Rolling Stock Purchases

Requirements for Fleets

- Service Life
 - 35'-40' & articulated buses – 12 years or 500,000 miles
 - 30' heavy buses – 10 years or 350,000 miles
 - 30' medium duty buses – 7 years or 200,000 miles
 - 25'-35' light duty buses – 5 years or 150,000 miles
 - Other light duty – 4 years or 100,000 miles
 - Fixed guideway rolling stock 25 years
- Early Disposition Policy
- Like Kind Exchange Policy

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Rolling Stock Purchases – cont'd

Spare Ratio

- “The number of spare buses in the active fleet for grantees operating 50 or more revenue vehicles should not exceed 20 percent of the number of vehicles operated in maximum service.”
- FTA has not established a maximum acceptable spare ratio for rail transit operation

Contingency Fleet

- No bus may be stockpiled before the vehicle has reached the end of its minimum normal service life.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Design and Construction Projects

Force Account

- Force account is defined as, “work other than grant or project administration that is included in an approved grant and performed by a grantee’s own labor forces.”
- FTA approved force account plan is required when force account is >\$10,000,000. If force account is <\$10,000,000 and >\$100,000 a plan is required to be on file but not approved by FTA.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Design and Construction Projects – cont'd

Force Account

“One of 4 conditions may warrant the use of a grantee’s own labor forces...

- cost savings
- executive expertise
- safety and efficiency of operations
- union agreement

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Program Income

Definition

Income earned from grant activity during the period of the grant.

Use

Grantees may retain program income so long as it is used only for mass transit purposes. Program income may not be used to refund or reduce the local share of the grant from which it was earned.

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Program Income Grantees May Retain for Transit Purposes:

- Income from sale or lease of air rights
- Other rental income
- Advertising
- Concessions
- Sale of map and planning reports

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Close Out Procedures

“The grantee must initiate closeout of a grant when all approved activities are completed and applicable Federal funds expended.”

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter I

Close Out Procedures

Close Out Process

- Letter to FTA notifying of pending closeout
- Final FSR
- Final budget revision reflecting actual project costs
- Final narrative milestone/progress report
- Request to deobligate unexpended Federal funds
- Any other required reports

FTA Circular 5010.1C as it relates to the Full Scope Review, Chapter I

Record Retention

- Records must be maintained for 3 years after the submission of the final financial status report
- In the event of litigation, claim, negotiation, audit or other action, 3 year period begins after the resolution of issues
- For equipment, the 3 year period begins at the date of disposition
- For indirect cost allocation plans, the 3 years begin after the plan is submitted to the FTA for approval or at the end of the fiscal year that the plan covers, which ever is later

FTA Circular 5010.1C as it Relates to the FMS Review, Chapter III

- Internal Controls
- Cost Allocation Plan/Indirect Cost Proposal
- Cost Standards
- Program Income
- Financial Reporting Requirements
- Annual Audit
- Third Party Contract Audits

PM BREAK



FTA Circular 4220.1E as it Relates to the FMS Review

This discussion of 4220.1E focuses on issues surrounding testing allowable costs. It is not intended to replace formal procurement training.

FTA Circular 4220.1E as it Relates to the FMS Review

Section 7C - Written Standards of Conduct

“Grantee shall maintain a written code of standards of conduct...”

Policy should address:

- Organizational conflicts
- Prohibition on receipt of gifts, gratuities, favors or anything of monetary value

May permit unsolicited gift of nominal intrinsic value.

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings:

- Grantee Procurement Manual does not contain code of conduct policies for employees involved in the procurement process
- Grantee had not required Directors involved in procurement activities to certify compliance with standard of conduct
- Code of Ethics Statements not signed by employees.

FTA Circular 4220.1E as it Relates to the FMS Review

Section 7I - Written Record of Procurement History

Grantees shall maintain records detailing the history of a procurement. At a minimum, these records shall include:

- Rationale for the method of procurement
- Selection of contract type
- Reasons for contractor selection or rejection, and
- The basis for the contract **price**

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings:

- Grantee files did not contain adequate justification for sole source procurement
- Procurement files did not contain evidence of an independent cost or price analysis
- Grantee could not provide documentation to justify two contracts issued to one contractor

FTA Circular 4220.1E as it Relates to the FMS Review

Section 8 - Competition

- All procurements will be conducted in a manner providing full and open competition.
- Unacceptable restrictions include...
 - Unreasonable requirements placed on firms for them to qualify to do business
 - Unnecessary experience and excessive bonding requirements
 - Non-competitive pricing practices between firms or between affiliated companies
 - Non-competitive awards to any person or firm on retainer contracts
 - Organizational conflicts of interest
 - Specification of only a “brand name” product without its salient characteristics and not allowing “an equal” product to be offered
 - Any arbitrary action in the procurement process

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings:

- Grantee improperly awarded a contract to a contractor who did not submit a bid.
- Grantee did not obtain a sufficient number of quotes to justify a purchase.
- Grantee included evaluation criteria that ensured selection of a particular contractor.
- Inadequate justification for an emergency procurement.

FTA Circular 4220.1E as it Relates to the FMS Review

Section 8B - Prohibition Against Geographic Preferences

- Grantees may not use instate or local geographic preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage.
- Geographical location may be a selection criteria in procurements for A&E services provided its application leaves an appropriate number of qualified firms.

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings:

- Grantee followed state procurement requiring geographic preferences, when possible to procure goods and services with federal funds

FTA Circular 4220.1E as it Relates to the FMS Review

Section 8C - Written Procurement Selection Procedure

“Grantees shall have written selection procedures for procurement transactions.”

All solicitations shall...

- Incorporate a clear and accurate description of the technical requirements
- Use “brand name or equal” only when necessary
- Identify all requirements that offerors must fulfill and all other factors to be used in evaluating bids or proposals

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings

- Grantee files did not contain evaluation/selection criteria for contracts awarded.
- Evaluation criteria not weighted.

FTA Circular 4220.1E as it Relates to the FMS Review

Section 10 - Cost or Price Analysis

- Grantee must perform a cost or price analysis in connection with every procurement action including contract modification
- As a starting point, grantees must make independent estimates before receiving bids or proposals

FTA Circular 4220.1E as it Relates to the FMS Review

Common Findings

- No evidence of cost/price analysis
- Grantee policy requiring 3 independent quotes not followed
- Grantee not adhering to documentation requirements for telephone quotes



CIRCULAR A-87

OMB Circular A-87

Federal Cost Principles

- A set of established accounting principles to be used in determining the allowable costs applicable to federal grants, subgrants, and cost type contracts awarded under federal grants.
- Implemented thru FTA Circular 5010.1C Chapter IV, Parts 2 and 3

OMB Circular A-87

Federal Cost Principles

A-87 is one of 5 sets of Federal cost principles:

- A-87 – State & Local Gov't (FAR 31.6)
- A-21 – Universities (FAR 31.3)
- A-122 – Non-profits (FAR 31.7)
- FAR – Federal Acquisition Regulations (48 CFR 31.2)
- CAS – Cost Accounting Standards – Only applies to contracts >\$500,000

OMB Circular A-87

What It Does

- Sets basic policies/procedures for identifying program costs
- Identifies allowable and unallowable costs
- Specifies allocation criteria
- Stipulates cost allocation plan requirements
- Cites documentation requirements
- Mandates cognizant agency approval/appeal concept
- Brings rationality to the cost determination and approval process

OMB Circular A-87

What It Does Not Do

- Supersede limitations imposed by law or regulation
- Dictate extent of federal funding or extent of matching required
- Dictate organizational form or management techniques needed for program administration
- Relieve state and local governments of stewardship responsibilities for federal funds

OMB Circular A-87

Circular Structure

Attachment A:	Purpose and Scope
Attachment B:	Selected Items of Cost
Attachment C:	State/Local-Central Service Cost Allocation Plans
Attachment D:	Public Assistance CAP
Attachment E:	Indirect Cost Rate Proposals

OMB Circular A-87 – Attachment A

- Objectives
 - Purpose: cost determination, not level of funding
 - Designed to provide that Fed. Awards bear fair share of costs
 - Profit provision outside scope
- Policy guides
 - Fundamental premise: state/local gov's responsible for administration of Federal Awards
- Application
 - All Fed. Agencies
 - Sub-awards
 - Guide for FP cost based contracts
 - CAS
- Definitions
 - awarding agency, approval, contracts, cog. Agency, cost, state/local gov., etc.

OMB Circular A-87 – Attachment A

Basic guidelines:

- Allowable
- Reasonable
- Allocable

OMB Circular A-87 – Attachment A

Allowable:

- necessary & reasonable
- allocable
- not prohibited under state/local laws/reg.
- Conform w/ Fed. limitations/exclusions
- apply uniformly to Fed. & non-Fed. Activities
- consistent cost treatment
- conform w/GAAP
- adequately documented
- not claimed on other Fed. Awards as cost or cost sharing

OMB Circular A-87 – Attachment A

Reasonable:

Prudent person factors

- ordinary & reasonable for activity
- sound business practices
- market prices
- significant deviation from established practices

OMB Circular A-87 – Attachment A

Allocable:

- assessed to activities based on relative benefit
- assessed to all activities regardless of fund sources

OMB Circular A-87 – Attachment A

- Composition of Costs
 - Total costs = direct costs + indirect costs - applicable credits
 - Classification: no universal rule; but must be consistent
- Direct Costs
 - Identifiable specifically with a particular cost objective, i.e., project or award or primary function
- Indirect Costs
 - Costs of general support activities that benefit more than one cost objective
 - Not readily assignable w/o disproportionate effort

OMB Circular A-87

Examples of Direct Costs

Cost incurred in performing a function/project/grant:

- Bus/Rail operations
- Planning
- Customer relations and services
- Land acquisition/Real estate
- Construction
- Project Administration

OMB Circular A-87

Examples of Indirect Costs

Administrative support activities

- Director's office and staff
- Human resources
- Accounting/Budgeting
- Purchasing
- General facilities management
- Internal audit
- General services
- Risk management

OMB Circular A-87

Unallowable Costs

- Alcoholic Beverages
- Bad Debts (unless provided for in federal program award regulations)
- Contingencies
- Contributions and Donations
- Entertainment
- Fines and Penalties

OMB Circular A-87

Unallowable Costs

- Defense of civil or criminal fraud or proceedings commenced by the U.S. or a State
- Fundraising/investment management costs, except for costs associated with pension plans
- General Government
- Lobbying

OMB Circular A-87

Idle Facilities/Idle Capacity

Unallowable except when:

- Necessary to meet fluctuations in workload
- Necessary when acquired, but idle due to changes in program requirements (allowable for a reasonable period of time, usually not to exceed one year)
- Normal cost of doing business and a factor in the normal fluctuations of usage

OMB Circular A-87

Interest

Unallowable, except:

- Financing costs of building acquisition, construction or fabrication, reconstruction or remodeling
- Financing costs of equipment
- Conditions:
 - Bona fide third party external to governmental unit
 - Assets used in support of federal awards
 - Earnings on debt service offset
 - Negotiate allowable interest on federal portion

OMB Circular A-87

Advertising and Public Relations

Advertising

- Unallowable unless incurred for:
 - recruitment of personnel,
 - procurement of goods,
 - disposal of surplus materials and
 - meeting the requirements of the federal award

OMB Circular A-87

Advertising and Public Relations

Public Relations unallowable except when:

- Required by the federal award, and then only as direct cost
- Incurred to communicate to the public and press about specific activities or accomplishments that result from federal award
- Communicating with the news media regarding matters of public concern

OMB Circular A-87

Audit Costs

- Allowable provided performed in accordance with Single Audit Act
- Cost of Single Audit allowable in proportion of Federal expenditures to total expenditures.

OMB Circular A-87 Compensation

- Documentation
- Leave
- Retirement Plans/Pensions, Post Retirement Health Benefits
- Donated Services
- Severance Pay

OMB Circular A-87

Depreciation/Use Allowance

- May not be used in combination for a single class of fixed assets
- If use allowance used, should not exceed 2% of acquisition cost for buildings and improvements and 6 2/3% of acquisition cost for equipment
- Depreciation method shall not change unless approved by cognizant agency
- Must be supported by property records

OMB Circular A-87

Maintenance

- Unless prohibited by law, the cost of necessary maintenance, normal repairs and upkeep are allowable to the extent they:
 - Keep property in efficient operating condition
 - Do not add to the permanent value of property or appreciably prolong its life
 - Are not otherwise included in rental or other charges for space

OMB Circular A-87

Memberships

Allowable:

- Business, technical, and professional organizations
- Subscriptions to business, technical and professional periodicals
- Costs of meetings and conferences where technical information is disseminated
- Memberships in civic and community, social organizations (direct cost with approval)

OMB Circular A-87

Other Allowable Costs

- ADP Systems Development/Testing
- Employee Morale/Health/Welfare
- Gains/losses on disposition of property
- Pre-award costs
- Proposal preparation costs
- Self-insurance
- Taxes
- Travel
- Working capital reserves

Circular A-87 Summary

- Background
- Cost principles
- Definitions



Agenda Day Two

8:30 – 9:45	Cost Allocation Plans
9:45 – 10:00	BREAK
10:00 – 11:15	FMS Controls
11:15 – 12:00	Self-Assessment Form
12:00 – 1:00	LUNCH
1:00 – 2:30	Self-Assessment Form -- continued
2:30 – 2:45	BREAK
2:45 – 3:30	Financial Capacity
3:30	End of Seminar



END OF DAY 1