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CHAPTER V. FINANCIAL MANAGEMENT

INTRODUCTION

Receipt of a Section 5311 grant obligates the grantee to use funds it receives as specified in the project application and grant agreement. Execution of the grant agreement establishes a partnership between INDOT and the grantee wherein INDOT assumes an oversight role in the use of grant funds and retains a vested interest in the unused grant balances, improperly applied funds, and property and facilities purchased or otherwise acquired under the grant.

Grantees and third party contractors are responsible for establishing and maintaining adequate internal control over all the functions that relate to project administration and execution. These control systems must adhere to:

- ◆ Indiana Code (I.C.) 5-11-1-2 (<http://www.in.gov/legislative/ic/2010/title5/ar11/ch1.html>)
- ◆ Applicable Federal requirements outlined in 2 CFR Part 200, or the “Super Circular” located at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- ◆ Program specific guidance contained in FTA Circular 9040.1G, available at http://www.fta.dot.gov/legislation_law/12349.html.

The overall objectives of the grantee’s financial management system should be to:

- ◆ Operate efficiently and economically;
- ◆ Keep project obligations and costs within the limits authorized under the grant and with legal requirements,

consistent with the scope of the project as outlined in the application;

- ◆ Safeguard project assets against waste, loss, and misuse;
- ◆ Ensure timely collection and proper accounting of the grantee’s operating and contract revenue; and
- ◆ Assure accuracy and reliability in financial, statistical, and other required reports.

In order to achieve these objectives, grantees must have a system of internal control, an accounting system that meets certain standards, and an overall financial management process that meets the minimum requirements of 2 CFR Part 200, http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

Important Note: The Office of Budget and Management’s role in the oversight of Federal grants covers three primary areas: cost principles, grant management/administrative requirements, and audits. Previously, OMB issued a series of circulars that contained guidance of relevance to INDOT administered grant programs. These circulars were A-87, A-122, A-102, A-110, and A-133. Circulars A-102 and A-110 were codified at 49 CFR Part 18 and were commonly referred to as the “Common Rule.” Circular A-133 incorporated the requirements of the Single Audit Act of 1984, as amended. In December 2013, OMB published new guidance which consolidated all previous circulars into one now commonly referred to as the “Super Circular.” In reality, the “Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” is not a circular, but is a compilation of all of the previous circulars’

requirements codified at 2 CFR Part 200. OMB's guidance, or the Super Circular, became effective December 26, 2014. All comments and references in this manual will be to 2 CFR Part 200 which is available at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

FINANCIAL MANAGEMENT SYSTEM

Each grantee or service provider must have in place the requisite financial management system that ensures the entity meets Federal requirements for record retention, methods of storage, access to records, and restriction on public access. Financial management systems must, at a minimum:

1. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
2. Maintain accurate, current, and complete disclosure of the financial results of each Federal award or program.
3. Keep records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

4. Demonstrate effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.
5. Compare expenditures with budget amounts for each Federal award.
6. Develop written procedures to implement payment procedures when drawing funds directly from the Treasury.
7. Develop written procedures for determining the allowability of costs.

As a general rule, grantees will establish transit as a separate cost center (department or fund within the accounting system) in order to track direct costs associated only with the program. In addition, the grantee should also develop a cost allocation plan in accordance with 2 CFR Part 200, http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl, to equally distribute common or indirect costs between the Section 5311 program and other services.

Functions such as accounting and payroll are typical of shared functions utilized by a local government that operates a rural transit program. The costs associated with shared functions are an eligible expense under the Section 5311 program as an indirect cost to the extent they reflect the indirect cost rate developed by the grantee and as approved by the grantee's cognizant Federal agency. A copy of the grantee's cost allocation plan must be on file with INDOT if

these costs are to be claimed under the Section 5311 program.

“Indirect costs” are those costs incurred for a common or joint purpose benefiting more than one department or fund and that is not readily assignable to the transit program without effort disproportional to the results achieved.

“Cognizant agency” means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all Federal agencies in accordance with the specific requirements of 2 CFR Part 200.

Grantees may also periodically benefit from donated goods or services provided by volunteers, outside professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect expense under Section 5311. However, the value of the donation may be used to meet the matching requirements of the program (cash equivalent) where permitted by INDOT. Contact INDOT before using donated services.

Consistent with the cost principals outlined in 2 CFR Part 200. INDOT requires that the value of the donated service be supported by the same methods used by the governmental organization to support other direct expenses.

Allowable Costs

Costs, consistent with the approved project budget, are allowable to the extent they meet the following criteria. The cost must be:

- ◆ Necessary and reasonable for proper and efficient performance or administration of the transit program;
- ◆ Allocable to the Section 5311 program;
- ◆ Recognized in the approved project budget and not be prohibited under the Indiana Codes;
- ◆ In conformance with the principles, limitations, and exclusions in 2 CFR Part 200
- ◆ Consistently treated in accordance with the procedures that apply to the unit of local government;
- ◆ Accorded consistent treatment by the local government in terms of classification (*e.g.*, an indirect cost under one Federal grant is considered an indirect cost under all Federal grants received by the governmental unit);
- ◆ Determined in accordance with generally accepted accounting principles;
- ◆ Excluded as a cost used to meet local matching requirements for other Federal grants;
- ◆ Net of all applicable credits; and
- ◆ Adequately documented.

Special Items

Grantees should also be aware of special conditions regarding the allowability of costs, as follows:

- ◆ *Advertising* – Advertising and public relations costs incurred by the grantee to promote the transit system are allowable under the Section 5311 program, even though 2 CFR Part 200 indicates that most advertising costs for these purposes would be unallowable.
- ◆ *Advisory Councils* – Reasonable expenses of advisory councils (costs incurred by advisory councils or committees) are generally allowable.
- ◆ *Bad Debts and Penalties* – Any losses arising from uncollectible accounts and

other claims, and related costs, are unallowable.

- ◆ *Donated Services* – The value of donated or volunteer services is not reimbursable either as a direct or indirect cost. The exact allowable provisions for using donated services is contained in 2 CFR Part 200.
- ◆ *Contingencies* – Expenses for contingencies or capital reserve accounts are unallowable, however, INDOT may specifically allow a contingency for certain capital acquisitions. Such expenses must be a part of the approved project budget.
- ◆ *Contributions and Donations* - Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable according to the stipulations of 2 CFR Part 200. The value of services, equipment, or property donated to the non-federal entity may not be charged to the federal award as either a direct or indirect (F&A), however, the value may be used to match the local match share of INDOT grants. Donations/contributions must meet the all of the following conditions to be permitted as match:
 - Must be verifiable from the grantee’s financial records;
 - Cannot be included as a contribution for any other federal awards;
 - Must be necessary and reasonable to the grantee’s transit program;
 - Must meet all allowability standards;
 - Must not paid as a cost under any other federal award;
 - Must be documented in the approved project budget;
 - Must conform to other provisions of 2 CFR part 200.

- ◆ *Depreciation* – Depreciation of facilities or equipment purchased with Federal or state capital funds is unallowable. Depreciation of private assets is also unallowable.
- ◆ *Income Taxes* – Federal, state, and local income taxes paid by private operators under contract are unallowable.
- ◆ *Related Activities* – Expenses for indirect transportation-related activities performed by regional or local entities as a normal function of general public administration are unallowable. An example would be expenses incurred by a city council while considering transit matters.
- ◆ *Intangible Assets* – Amortization of intangible assets is unallowable.
- ◆ *Memberships* – Costs associated with memberships in business, professional, or technical organizations are allowable. Memberships in organizations substantially engaged in lobbying are unallowable.

Pre-Award Audit

INDOT will conduct a pre-award audit of all new grantees prior to entering into a financial assistance agreement for Section 5311 funds. The purpose of this audit is to review the grantee’s system of internal controls and financial management system.

INDOT will also review the grantee’s most recent single audit report to identify any deficiencies in the grantee’s accounting and financial management practices that must be resolved prior to the award of the grant.

INDOT or representatives from the Indiana State Board of Accounts reserve the right to conduct an on-site review of the grantees accounting and financial management

systems as part of the pre-award process. While the on-site reviews are usually limited to new grantees, INDOT or its representatives may also visit grantees who have received a major grant award or who have encountered difficulties in the administration of previous Federal and/or grants.

Chart of Accounts

INDOT has adopted a standard chart of accounts that must be used in budgeting and reporting Section 5311 expenses. This chart of accounts is based on the Federal Transit Administration (FTA) required chart of accounts, which is used by FTA grantees in urbanized areas throughout the United States and is illustrated in INDOT's "Itemization of Quarterly Expenses" which is available in the Forms Section of the INDOT website, <http://www.in.gov/indot/2436.htm>.

A grantee's decision whether to provide service directly or through a contract with another operator will have a significant impact on the complexity of its accounting records. Records for grantees providing service directly will be significantly more complex than those grantees that contract for services with another entity.

Grantees that contract service through competitive procurement are required to maintain and report their own administrative expenses plus amounts paid to the contract operator. Contract operators may continue to use their own accounting system, so long as that system reports financial information in accordance with INDOT's standardized account code structure. If the operator is paid on a fixed unit rate basis, the operator must be able to accurately maintain and report the number of service units provided and the amount of revenue(s) received.

Basis of Accounting

Grantees may use cash, modified cash, or accrual accounting system to maintain financial transactions. However, consistent with FTA circular 9040.1G, INDOT requires all systems to use the accrual basis of accounting when filing quarterly claim reports.

Accrual Accounting

Accrual accounting is both the most difficult and the most accurate of the three financial reporting methods. It follows the principal that recognizes and records expenses when they are incurred and revenues when they are realized (earned), without regard to the time of payment or receipt of cash.

Cash Accounting

Cash basis accounting is the simplest and easiest accounting method to understand. Under this method, **cash flow determines when expenses and revenues are recorded**. In other words, expenses are recorded only when cash is paid and revenues only when cash is received regardless of when incurred or earned.

While simple to understand in comparison to accrual accounting, cash accounting may not accurately reflect the true financial position of the transit organization.

Modified Cash Accounting

The modified cash basis of accounting is a mixture of cash and accrual accounting. Expenses and revenues that result in transactions extending beyond the current year are divided into two parts. The entire portion of the expense or revenue attributable to the current year is immediately recorded as an expense or

revenue (cash accounting). The remaining portion is recorded as either a prepaid expense (asset) or an unearned income (liability), and is deferred and recorded in the next period to which it applies (accrual accounting).

PROJECT INVOICING AND REPORTING

INDOT provides all of the necessary forms for invoicing and reporting. Below are the specific procedures for capital and operating invoicing and reporting.

Capital Reimbursements

This section provides an overview of INDOT procedures for requesting reimbursement of PMTF/Section 5311 capital funds.

Requests for capital reimbursement may be made to INDOT at any time or whenever necessary to assist the grantee in meeting project obligations (*e.g.*, invoices from equipment vendors).

Like operating grants, funds are provided on a reimbursement basis only, meaning that the grantee must incur the expense, as evidenced by documentation from the equipment vendor, and then seek reimbursement from INDOT. Grantees may submit the invoice to INDOT once they receive the vehicle and invoice from the vendor.

The Federal share cannot exceed 80 percent of total costs and cannot exceed the amount specified in the grant award.

PMTF funding is one-half of the non-Federal share of project costs, or an amount equal to LDI (whichever is less).

Capital Reports

Grantees should submit the Capital Financial Status Report along with the Contract Invoice Voucher in seeking reimbursements. Data to complete the Capital Financial Status Report is derived directly from the approved project budget.

A blank copy of the Capital Financial Status Report is available in the Forms Section on the INDOT website, <http://www.in.gov/indot/2436.htm>.

Operating Reimbursements

OPERATING FUNDS - REIMBURSEMENT

This section provides an overview of INDOT's procedures for requesting reimbursement of PMTF/Section 5311 operating funds.

Requests for reimbursements are made to INDOT on a quarterly basis. Grant funds are provided on a reimbursement basis only, meaning that the grantee must incur the expense, and then seek reimbursement from INDOT.

Grantees submit five forms as part of this process:

1. Contract Invoice Voucher;
2. Quarterly Operating Data Report;
3. Quarterly Operating Financial Status Report;
4. "Itemization of Quarterly Expenses"; and
5. Trip Denial Form.

All forms are available in the Forms Section on the INDOT website, <http://www.in.gov/indot/2436.htm>.

Contract Invoice Voucher

Quarterly Invoice Vouchers should be accompanied by the grantee's Public Transportation Annual Report data.

Quarterly Operating Data Reports

This form is used to provide transit system operating data to INDOT. Grantees should indicate the transit system name, the calendar year quarter to which the report applies, year, and operating data, by mode of service, for the system. Requested operating data include:

- ◆ Passenger boardings;
- ◆ Total vehicle miles;
- ◆ Revenue vehicle miles;
- ◆ Gallons of fuel used;
- ◆ Number of road calls;
- ◆ Operating income; and
- ◆ Total expenses.

This data must be reported by service mode (fixed route, demand response). Fixed route is transit service that is operated along a prescribed route according to a fixed schedule in accordance with the definition found in 49 CFR Part 37.3, Transportation Services for Individuals with disabilities (ADA),

http://www.fta.dot.gov/12876_3906.html.

Demand response is all other transit service that cannot be defined as fixed route.

Charter service is defined in [49 CFR Part 604](#), http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title49/49cfr604_main_02.tpl, as transportation provided by a recipient at the request of a third party for the exclusive use of a bus or van for a negotiated price. **INDOT exclusively prohibits charter service.** Any one of the following features may be characteristic of charter service:

- ◆ A third party pays the transit provider a negotiated price for the group;

- ◆ Any fares charged to individual members of the group are collected by a third party;
- ◆ The service is not part of the transit provider's regularly scheduled service, or is offered for a limited period of time;
- ◆ A third party determines the origin and destination of the trip as well as scheduling; or,
- ◆ Transportation provided by a recipient to the public for events or functions that occur on an irregular basis or for a limited duration and:
- ◆ A premium fare is charged that is greater than the usual or customary fixed route fare; or
- ◆ The service is paid for in whole or in part by a third party.

Charter is discussed in more detail in **Chapter X**. Again, **INDOT does not allow the provision of ANY charter service**, therefore, grantees should review their service carefully to ensure that none of their service meets the definition of charter.

Rural Transit grantees are required to submit the Quarterly Operating Data Report form to INDOT within 45 days after the conclusion of the quarter. Failure to submit the quarterly operating data report forms may result in INDOT withholding future reimbursement payments.

INDOT Operating Report Schedule

Quarter	Operating Data Report Due Date
January 1 to March 31	May 15
April 1 to June 30	August 15
July 1 to September 30	November 15
October 1 to December 31	February 15

Using the information contained in the quarterly data reports, INDOT develops performance measures, which are provided

to the grantees. INDOT uses these measures for evaluation purposes, such as time trend analyses and to conduct peer group analyses among the rural transit systems. The information from the quarterly reports is also used for compiling the annual report of the transit systems in the state.

Quarterly Operating Financial Status Report

With this report, the grantee provides INDOT with quarterly financial data regarding the system. The report also assists the grantee in determining the appropriate amount of funds to invoice under PMTF/Section 5311.

The form requests information in the following areas:

- ◆ System identification;
- ◆ Total expenses;
- ◆ Operating income;
- ◆ Net expense;
- ◆ Federal share;
- ◆ Local cash grants and reimbursements; and
- ◆ PMTF share.

INDOT will record the Purchase Order Number, Project Number(s) on the form before it is distributed to the grantee.

Total expenses for the quarter should be drawn from the grantee's accounting system and represent the total eligible costs for the reporting period. Total expenses must equal total revenues (Operating Income + FTA Share + Local Cash + PMTF) = Total Expense.

Operating income represents income from the operation of transit services and includes passenger fares, special fares, other revenues, and contra-expenses. Operating income is deducted from Total Expenses to yield *Net Expense*.

FTA share is computed at 50 percent of net expenses (however, at no time may the total FTA reimbursements exceed the contract amount specified by INDOT). The amount computed on this line should be transferred to the Contract Invoice Voucher.

Local cash grants and reimbursements are computed based on the monies eligible to be used as match for PMTF, such as taxes levied directly by the transit system, general fund appropriations, unrestricted Federal and/or state funds, and monies not eligible for PMTF match, such as in-kind labor.

State PMTF share is calculated as total expenses minus the Federal share minus contra-expenses minus in-kind labor, divided by 2. Like Section 5311 funding, the total amount of PMTF reimbursement may not exceed the amount specified in the contract. PMTF may not exceed 100 percent of Locally Derived Income (LDI). This amount should also carry over to the Contract Invoice Voucher.

An electronic, unsigned copy of the Quarterly Operating Status Financial Report should be submitted to INDOT with the Contract Invoice Voucher (State Form 3211). Grantees are required to keep the original, signed Contract Invoice Voucher on file.

BUDGET REVISION PROCEDURES

Budget Revisions that Do Not Require INDOT Prior Approval

Generally, contract amendments are not required for minor changes that will not affect the total amount of the project or affect changes in the scope of the project. Such minor changes include the transfer of funds between approved line items, increases or decreases in line item

quantities, and the addition or deletion of non-major line items.

If the budget revision falls into this category, grantees should notify the Office of Transit when the next invoice is submitted. The grantee should provide INDOT with a revised budget and quarterly line item balances.

Budget Revisions that Require INDOT Prior Approval

Budget changes that are not considered minor and, therefore, require the *prior* approval of INDOT include:

- ◆ The cumulative transfer of funds between line items where the total equals or exceeds ten (10) percent of the total project cost. No transfers are permitted that will cause Section 5311 or State funds to be used for purposes other than those specified in the grant contract;
- ◆ The transfer of funds between indirect and direct line items in operating grants and the transfer of funds between non- construction and construction line items in a capital grant; and
- ◆ The increase or decrease of capital line item quantities.

When the budget revision falls into this category, the grantee should write to INDOT indicating:

- ◆ A detailed description of the changes;
- ◆ Justification for the changes; and,
- ◆ A revised budget in the required format.

INDOT Office of Transit will take action on budget revisions requests within 30 days. The Office of Transit will return a signed copy of the budget revision to the grantee if the request is approved. If disapproved, the Office of Transit will transmit a letter to the

grantee indicating the reasons for disapproval.

Budget Revisions that Require Grant Contract Amendment

A contract amendment is required when the grantee requests a change that represents a major change in scope of the project or when the change will require a change in the amount of Federal and state funds in the project.

Examples of major budget revisions include changing to new construction from acquisition of an existing building for a transit facility. If a grantee is unsure whether the scope of the change constitutes a major or minor change, the grantee should contact INDOT for a determination.

When making budget changes that require a contract amendment, the grantee must request the change in writing, including the following elements in the letter of request:

- ◆ Identify, explain, and justify the changes in scope;
- ◆ Submit a revised budget in the required format; and
- ◆ Identify and verify that additional local match is available (if the change results in a net increase in project cost).

INDOT will review the budget revision and will determine if the change in scope is significant enough to warrant a new public hearing, additional environmental impact determinations, and/or whether additional project documentation is necessary. INDOT approval will be based on the weight of the submitted evidence, the adequacy of the justification, and the availability of funds. Concurrent with the written approval of the revision, INDOT may authorize, under certain conditions, the grantee to proceed

with the revised scope of work prior to execution of the contract amendment.

Deadlines for Submission

Operating grant budget revisions must be submitted with the second quarter operating claim voucher. Capital grant budget revisions must be submitted at least 60 calendar days prior to the end of the grant contract period.

In some circumstances, INDOT may consider a budget revision after the end of the contract period if the revision does not require a contract amendment, and only if:

- ◆ The grantee can demonstrate why the request could not have been submitted in accordance with the deadlines noted above; and
- ◆ There is a sufficient balance of funds in the contract to fund the revision.

Audit, Resolution, and Project Close-Out

Requirements of former OMB Circular A-133 which implemented the provisions of the "Single Audit Act of 1984," and establishing the single annual audit requirement for State/local governments and other public bodies that receive Federal assistance in excess of \$750,000 is now contained in 2 CFR Part 200, the "Super Circular," available for review at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

The purpose of the required audit is to determine whether the grantee:

1. Has prepared financial statements that fairly present its financial position and the results of its financial position and the results of its financial operations in accordance with generally accepted

- accounting principles;
2. Has in place internal accounting and other control systems to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations;
3. Has complied with laws and regulations that may have material effect on its financial statements; and on each of its major Federal assistance programs (as defined according to the sliding scale discussed in 2 CFR Part 200.

The legally authorized auditing body for all grantees is the State Board of Accounts. Grantees that contract with private companies for transit service must require that these companies provide them with their annual audit. The grantee is responsible for reviewing all subcontractors' audit reports and appropriately resolving any findings. The subcontractors' audits must be available for review by INDOT, upon request.

Resolution of Audit Findings

Grantees and subgrantees are responsible for prompt resolution of all audit findings and recommendations. This responsibility requires that the grantee:

1. Promptly evaluate the report;
2. Determine the appropriate follow-up actions and establish a date for their completion; and
3. Complete all required actions within the established period of time.

Deficiencies or opportunities for improvement identified in an audit must be resolved by the grantee. The resolution of audit findings begins with INDOT's report to the grantee and continues until the grantee corrects identified deficiencies, implements needed improvements, or demonstrates

that the findings or recommendations are not valid or do not warrant management action.

The audit is not resolved until INDOT concurs in the documentation of steps taken to implement any needed corrective actions.

The status of outstanding audit findings and recommendations should be monitored and reported by the grantee in quarterly progress reports and, where appropriate, significant events reported.

Close-Out

The close-out of a Section 5311 grant will occur after funds are expended and all work activities for the project are completed. INDOT will initiate the project close-out within 90 days after receiving, reviewing, and accepting end of the year project data.