

## **2. FINANCIAL MANAGEMENT AND CAPACITY**

### **PURPOSE OF THIS REVIEW AREA**

The recipient must have financial policies and procedures; an organizational structure that defines, assigns, and delegates fiduciary authority; and financial management systems in place to manage, match, and charge only allowable costs to the award. The recipient must conduct required Single Audits, as required by 2 CFR part 200, and provide financial oversight of subrecipients.

### **QUESTIONS TO BE EXAMINED**

1. Does the recipient have financial management policies and procedures in place for managing Federal awards, establishing internal controls, ensuring timely distribution of funds, and determining allowability of costs?
2. Does the recipient's organizational structure clearly define, assign, and delegate appropriate authority for all financial duties and require that those duties are 1) carried out by properly qualified personnel, 2) segregated within the organization, and 3) subject to review to ensure that adequate internal checks and balances exist?
3. Does the recipient's financial management system allow it to prepare reports and trace funds adequately to establish compliance with award terms and conditions?
4. Does the recipient correctly draw down, track the use of Federal funds for eligible expenses, and disburse advance payment funds within three business days?
5. If applicable, has the recipient complied with requirements for charging indirect costs to Federal Transit Administration (FTA) awards, including developing annual cost allocation plans, submitting approval documentation, and recording indirect costs in awards and reports?
6. Has the recipient conducted the required Single Audits, submitted the required documentation to the Federal Audit Clearinghouse (FAC), and resolved any identified issues?
7. Does the recipient have financial resources to provide the required local share for active awards and to maintain and operate FTA-funded assets?
8. For recipients receiving operating assistance, is the amount eligible for operating assistance calculated in compliance with FTA guidance?
9. Does the recipient adequately ensure financial management systems oversight of its subrecipients?

### **INFORMATION NEEDED FROM RECIPIENT**

#### **Recipient Information Request**

- Financial statements or comprehensive annual financial reports for the past three years
- Internal audits for the past three years prepared by the recipient, if applicable
- List of funds to support transit programs for the last three years and next three years. Identify the following items for each year:
  1. sources of funding (i.e., farebox revenue, toll tax, local share, etc.)
  2. amounts
  3. status (elected, discretionary, by law, etc.)
  4. significant changes that may affect the sources of funding
- Financial management policies and procedures that include determining the allowability of costs and timely distribution of funds
- Cash Management Improvement Act of 1990 (CMIA) agreements (states only)

- Organizational chart for organization as a whole and the financial office(s)
- Position and job descriptions for award-related senior financial and accounting staff with financial duties for managing FTA funds
- Sample resumes of award-related senior financial and accounting staff with financial duties
- Sample record from financial system identifying the following required elements: FTA awards with the Assistance Listing title and number, FAIN (Federal Award Identification Number) and year, name of the awarding Federal agency, and name of the pass-through entity, if any
- Sample financial record including Federal award information, amounts awarded, authorized, encumbered and expended; including income earned
- Most recent variance report(s) demonstrating that budget/actual comparisons are completed for FTA awards
- Sample worksheets used to calculate operating expenses
- Financial plan projecting revenues and expenses for the next three years (or longer), including the assumptions and notes to the financial plan
- Operating and capital budgets for the past three years with comparison to actual results
- Listing of local or state legislation, with sunset provisions, impacting transit funding
- State/Transportation Improvement Program (S/TIP)
- Annual budget to actual reconciliation reports for the entire transit program for the review period
- List of subrecipients that charge indirect cost to the recipient

#### **Recipient Follow-up**

- Total Federal (non-FTA) funds expended for the past three years by year
  - Documentation of progress towards closing open Single Audit findings
  - Approval notification of the Cost Allocation Plan (CAP) or Indirect Cost Rate Proposal (ICRP)
  - Approval notification of the central services plan
  - Board meeting minutes for the review period
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#### **F1. Does the recipient have financial management policies and procedures in place for managing Federal awards, establishing internal controls, ensuring timely distribution of funds, and determining allowability of costs?**

##### **BASIC REQUIREMENT**

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

##### **APPLICABILITY**

All recipients

##### **DETAILED EXPLANATION FOR REVIEWER**

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

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

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

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

- For states with major Federal programs, payments are governed by Treasury-State Cash Management Improvement Act of 1990 (CMIA) agreements and default procedures codified at 31 CFR Part 205 "Rules and Procedures for Efficient Federal-State Funds Transfers" and the Treasury Financial Manual, Part 4A, Chapter 2000 (TFM 4A-2000) Overall Disbursing Rules for All Federal Agencies.
  - i. The CMIA provides the general rules and procedures for the efficient transfer of funds for Federal financial assistance programs between the Federal government and the states. The CMIA requires an annual Treasury-State Agreement (TSA) between the U.S. Department of the Treasury, Financial Management Service and each of the 50 states, the District of Columbia, and the Territories of American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The objectives of the agreement are (1) To minimize the time between the transfer of funds to the states and the payout for program purposes; (2) To ensure that Federal funds are available when requested; and (3) To assess an interest liability to the Federal government and/or the states to compensate for the lost value of funds. *TSA covers Federal programs that meet the funding threshold established each year and establishes the procedures and requirements for the transfer of funds.* These procedures require the state to calculate Federal and state interest liabilities at the Treasury bill rate for covered programs and to annually report the liabilities to the Federal government. Any interest owed by the state for the preceding fiscal year is due to the Federal government no later than March 31 of the following fiscal year.

For a State entity without a TSA, it is sufficient for the State to refer to the default procedures in 31 CFR 305(a). This is one instance where written procedures are not required, because the default procedures in 31 CFR 305(a) are very prescriptive. It is not necessary for the State to cut and paste the default procedures into their written

materials. Note: This guidance is relevant only to state agencies whose transit program is not covered by the states' TSA and does not apply to non-state recipients.

- ii. TFM 4A-2000 provides guidance to Federal agencies on the overall disbursing rules with the principal objectives of control of disbursements are to ensure that all disbursements are legal, proper, and correct and that all disbursements are accurately recorded, reported, and reconciled in a timely, efficient manner.
- For non-state recipients, financial management policies and procedures must ensure that payment methods minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

## INDICATORS OF COMPLIANCE

- a. *Does the recipient have written financial management policies and procedures?*
- b. *Do the recipient's written financial management policies and procedures include the two elements required by 2 CFR part 200?*

Required Written Financial Management Policies and Procedures			
Policy/Procedure	CFR Reference	Recipient Written Policy/Procedure and Page Number	Comment/Description of process, if not written
Allowable costs	2 CFR Part 200.302 2 CFR Part 200-Subpart E	-	-
Cash Management and Payment	2 CFR Part 200.302 2 CFR Part 200.305	-	-

- c. *How do the recipient's financial management policies and procedures address internal control practices to prevent waste, loss, and misuse of Federal funds. Complete the chart below: (if written, cite location; otherwise discuss and document the recipient's process for each)*

Required Financial Management Policies and Procedures Information						
Policy/Procedure	CFR Reference	Recipient Policy and Procedure (Page Number)	Implementing question (See Instructions for Reviewer)	Implemented		Comment/Description of Process, if not written
				Yes	No	
<i>Safeguarding of funds</i>	2 CFR Part 200.302	-	Question F4	-	-	-
<i>Recording and identification of assets; including the use of such</i>	2 CFR Part 200.302	-	Question F3	-	-	-
<i>An audit, testing or review program for internal control systems</i>	2 CFR Part 200.303	-	Question F6	-	-	-
<i>Financial oversight of subrecipients, if applicable</i>	2 CFR Part 200.303 2 CFR Part 200.329 2 CFR Part 200.332	-	Question F9	-	-	-
<i>Required financial reporting, review, and approval</i>	2 CFR Part 200.328	-	Questions F3 & F4	-	-	-
<i>Record retention</i>	2 CFR Part 200.334	-	Question F3	-	-	-
<i>Accounting software being used</i>	2 CFR Part 200.336	-	Question F3	-	-	-
<i>Responsibilities, qualifications, training, supervision, and evaluation of financial staff</i>	FTA Circular 5010.1E Award Management Requirements Chapter VI (2)(f)	-	Question F2	-	-	-

Required Financial Management Policies and Procedures Information						
Policy/Procedure	CFR Reference	Recipient Policy and Procedure (Page Number)	Implementing question (See Instructions for Reviewer)	Implemented		Comment/Description of Process, if not written
				Yes	No	
<i>Organizational structure, levels and delegation of authority, access, and segregation of duties</i>	<i>FTA Circular 5010.1E Award Management Requirements Chapter VI (2)(f)</i>	-	<i>Question F2</i>	-	-	-
<i>Financial planning</i>	<i>FTA Circular 5010.1E, Chapter VI, Section 4 Financial Plan</i>	-	<i>Question F7</i>	-	-	-
<i>Prevention of Duplicate Billing</i>	<i>2 CFR Part 200.1</i>		<i>Question F4</i>	-	-	-

- d. Is the recipient implementing its financial management policies and procedures as written and/or described?

#### INSTRUCTIONS FOR REVIEWER

Obtain and review the recipient's financial management policies and procedures to ensure its procedures for determining allowability of costs and cash management are included. Procedures for determining allowability of costs and cash management must be written. Merely stating or referencing the regulations, is not sufficient to meet these requirements.

For state agencies, access the Treasury-State Cash agreement from the United States Bureau of Fiscal Service. If the agreement has expired, follow up with the recipient to obtain the current agreement. Confirm that the FTA program is one of the programs that is covered by the agreement. If not, follow up with the recipient to obtain its written procedures for cash management and confirm that the procedures reference 2 CFR Section 200.305 (a). As these procedures are prescriptive, referencing the section of the CFR is sufficient to meet this requirement.

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

- (a) Are in accordance with the budget and projects in the award.
- (b) Meets the requirements of the award agreement, i.e., cost, project description, scope of work, etc.
- (c) Are treated the same for both Federal and non-Federal activities, i.e., cost typically charged as indirect for the Federal activity is charged as indirect for non-Federal activities also.

- (d) Can be assigned to the appropriate funding sources within the recipient's financial management systems.
- (e) Used to match the Federal award are from allowable sources and adequately supported, i.e., in-kind, other DOT or Federal funds, state and local funds, etc.
- (f) Are verified, approved, necessary, and reasonable for the completion of the project.
- (g) Received prior FTA approval, as needed.

Obtain and review the recipient's procedures to ascertain how it will ensure that Federal funds are disbursed within three (3) business days between the transfer of funds from the Federal agency and disbursement by the recipient.

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

If not explicitly stated in the financial management policies and procedures, discuss with the recipient and document in the table at indicator c, their process for complying with the requirements.

Substantiate implementation of the recipient's financial management policies and procedures, through the review of the remaining questions in this section, as referenced in the table at indicator d.

### **POTENTIAL DEFICIENCY DETERMINATIONS**

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

**DEFICIENCY CODE F1-1:** Lacking/missing required written financial management policies and procedures

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

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

**DEFICIENCY CODE F1-2:** Lacking internal financial controls

**SUGGESTED CORRECTIVE ACTION:** The recipient must submit new policies and procedures for establishing and maintaining effective internal control over the Federal award that provides reasonable assurance that it is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. The recipient must submit documentation that it has trained appropriate staff on the new policies and procedures.

**NOTE:** This deficiency should be made only if there are multiple and systematic issues identified in the review of this section. Prior to making this deficiency, consult with the regional office.

### **GOVERNING DIRECTIVE**

## 2 CFR Part 200.302 Financial management

- (a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. All recipient and subrecipient financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by the terms and conditions; and tracking expenditures to establish that funds have been used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. See § 200.450.
- (b) The recipient's and subrecipient's financial management system must provide for the following (see also §§200.334, 200.335, 200.336, and 200.337):
  - (4) Effective control over, and accountability for, all funds, property, and other assets. The recipient or subrecipient must safeguard all assets and ensure they are used solely for authorized purposes. See § 200.303.
  - (6) Written procedures to implement the requirements of §200.305.
  - (7) Written procedures for determining the allowability of costs in accordance with subpart E—Cost Principles of this part and the terms and conditions of the Federal award.

## 2 CFR Part 200.303 Internal controls

The non-Federal entity must:

- (a) Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the recipient's or subrecipient's compliance with statutes, regulations, and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified.
- (e) Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. This also includes information the Federal agency or pass-through entity designates as sensitive or other information the recipient or subrecipient considers sensitive and is consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

## 2 CFR Part 200.305 Federal Payment

- (a) For states, payments are governed by Treasury-State Cash Management Improvement Act (CMIA) agreements and default procedures codified at 31 CFR part 205 and Treasury Financial Manual (TFM) 4A-2000, "Overall Disbursing Rules for All Federal Agencies"

- (b) For recipients and subrecipients other than states. For recipients and subrecipients other than States, payment methods must minimize the time elapsing between the transfer of funds from the Federal agency or the pass-through entity and the disbursement of funds by the recipient or subrecipient regardless of whether the payment is made by electronic funds transfer or by other means. See § 200.302(b)(6). Except as noted in this part, the Federal agency must require recipients to use only OMB-approved, government-wide information collections to request payment.

2 CFR Part 200.403 Factors affecting allowability of costs

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the recipient or subrecipient.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306(b).
- (g) Be adequately documented. See also §§200.300 through 200.309 of this part.
- (h) Administrative closeout costs may be incurred until the due date of the final report(s). If incurred, these costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the Federal agency. All other costs must be incurred during the approved budget period. At its discretion, the Federal agency is authorized to waive prior written approvals to carry forward unobligated balances to subsequent budget periods. See §200.308(g)(3).

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

*(f) Standards of Internal Control and Audit Resolutions.*

- (1) General
  - a) Recipient management policies that govern implementation of the Award must be clearly stated, understood throughout the organization, and conformed to applicable legislative and administrative requirements.
  - b) The recipient's formal organization structure must clearly define, assign, and delegate appropriate authority for all duties.

- c) Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.
  - d) A system of organizational planning should exist to determine financial, property, and personnel resource needs.
  - e) Written operating procedures must exist and be simply stated, yet meet the recipient's operating, legal, and regulatory requirements. In developing its procedures, the recipient should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel; other important considerations are the prevention of illegal or unauthorized transactions or acts.
  - f) The recipient's information system must reliably provide needed operating and financial data for decision-making and performance review.
  - g) The recipient must provide proper supervision and performance must be subject to review of an effective internal audit program.
  - h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.
  - i) Expenditures must be controlled so that construction, equipment, other property, and services are acquired and received as contracted for (as to quality, quantity, price, and time of delivery); authorizations for expenditures must conform to applicable statutes, regulations, and policies.
  - j) All real property, equipment, expendables, and funds must be safeguarded to prevent misuse, misappropriation, waste, or unwarranted deterioration or destruction.
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**F2. Does the recipient's organizational structure clearly define, assign, and delegate appropriate authority for all financial duties and require that those duties are 1) carried out by properly qualified personnel, 2) segregated within the organization, and 3) subject to review to ensure that adequate internal checks and balances exist?**

**BASIC REQUIREMENT**

Recipients must have an organizational structure that clearly defines, assigns, and delegates' appropriate authority for all financial duties regarding the management of Federal funds. Those duties must be carried out by properly qualified personnel and be segregated within the organization.

**APPLICABILITY**

All recipients

**DETAILED EXPLANATION FOR REVIEWER**

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

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

## **INDICATORS OF COMPLIANCE**

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

## **INSTRUCTIONS FOR REVIEWER**

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

Review recipient's job descriptions for its senior financial and accounting staff as listed on the organizational chart. Review sample resumes of senior financial and accounting staff by comparing them to the respective job descriptions to verify that staff experience align with their position.

To verify segregation of duties, during the review of the Electronic Clearinghouse Operation (ECHO) documentation, verify that:

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

NOTE: These components do not reflect the entire ECHO verification process, only the elements needed to verify segregation of duties.

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

## **POTENTIAL DEFICIENCY DETERMINATIONS**

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

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

SUGGESTED CORRECTIVE ACTION: The recipient must develop and submit a revised organizational structure demonstrating a segregation of financial duties and functions, including roles and responsibilities, to create an internal system of financial checks and balances.

The recipient is deficient if its minimum required qualifications for senior financial and accounting staff do not align with its staff resumes.

DEFICIENCY CODE F2-2: Minimum financial required qualifications not properly aligned

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

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

**DEFICIENCY CODE F2-3: ECHO draws not properly approved**

**SUGGESTED CORRECTIVE ACTION:** The recipient must develop a process to ensure someone other than the approving official requests ECHO funds. The recipient must submit a process documenting that an authorized official approves each ECHO request. The recipient will update the authorizing official in ECHO or have the authorizing official delegate authority in writing to the person approving the requests. The recipient must implement and submit to the regional office documentation of training conducted of the appropriate staff on new policies and procedures.

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

**DEFICIENCY CODE F2-4: Lacking supervision for financial personnel**

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

## **GOVERNING DIRECTIVE**

### 2 CFR Part 200.303 Internal Controls

The non-Federal entity must:

- (a) Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government', issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission.
- (b) Comply with the US Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the recipient or subrecipient's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified.

(e) Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. This also includes information the Federal agency or pass-through entity designates as sensitive or other information the recipient or subrecipient considers sensitive and is consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality..

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

(f) Standards of Internal Control and Audit Resolutions.

(1) General.

- b) The recipient's formal organization structure must clearly define, assign, and delegate appropriate authority for all duties.
- c) Responsibility for duties and functions must be segregated within the organization to ensure that adequate internal checks and balances exist. Recipients should pay particular attention to authorization, performance, recording, inventory control, and review functions to reduce the opportunity for unauthorized or fraudulent acts.
- g) The recipient must provide proper supervision and performance must be subject to review of an effective internal audit program.
- h) All personnel must be properly qualified for their assigned responsibilities, duties, and functions; education, training, experience, competence, and integrity should be considered in assigning work; all must be held fully accountable for the proper discharge of their assignments.

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**F3. Does the recipient's financial management system allow it to prepare reports and trace funds adequately to establish compliance with award terms and conditions?**

**BASIC REQUIREMENT**

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

**APPLICABILITY**

All recipients

**DETAILED EXPLANATION FOR REVIEWER**

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

- (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received.
- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program as addressed in the Technical Capacity-Award Management questions TC-AM 2 and TC-AM3.
- (3) Records that identify the source and application of funds for federally funded activities.
- (4) Effective control over, and accountability for, all funds, property, and other assets.

- (5) Comparison of expenditures with budget amounts for each Federal award. If indirect costs are included in an award, the budgeted amounts should be reviewed for comparison with those costs claimed in the FFR.

## INDICATORS OF COMPLIANCE

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

## INSTRUCTIONS FOR REVIEWER

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

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

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

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

## POTENTIAL DEFICIENCY DETERMINATION

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

### DEFICIENCY CODE F3-1: Financial management systems deficiencies

SUGGESTED CORRECTIVE ACTION 1: The recipient must establish financial systems that allow for preparation of required reports and permit the tracking of funds to a level of expenditures

adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

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

## **GOVERNING DIRECTIVE**

### 2 CFR Part 200.302 Financial Management

- a. Each state must expend and account for the Federal award in accordance with State Laws and procedures for expending and accounting for the state's funds. All recipient and subrecipient financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by the terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also §200.450.
- b. The financial management system of each recipient's and subrecipient must provide for the following (see also §§200.334, 200.335, 200.336, and 200.337):
  - 1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
  - 2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§200.328 and 200.329. If a federal agency or pass-through entity requires reporting on an accrual basis from a recipient or subrecipient that maintains its records on other than an accrual basis, the recipient or subrecipient must not be required to establish an accrual accounting system. This recipient or subrecipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand.
  - 3) Maintaining records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.
  - 4) Effective control over, and accountability for, all funds, property, and other assets. The recipient or subrecipient must safeguard all assets and assure that they are used solely for authorized purposes. See §200.303.
  - 5) Comparison of expenditures with budget amounts for each Federal award.

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**F4. Does the recipient correctly draw down, track the use of Federal funds for eligible expenses, and disburse advance payment funds within three business days?**

#### **BASIC REQUIREMENT**

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

## APPLICABILITY

All recipients

## DETAILED EXPLANATION FOR REVIEWER

Recipients request Federal funds through FTA's ECHO system. The recipient's records must support ECHO requests. The information is based on the approved award budgets and the underlying transactions must be traced back to an invoice for goods or services or internal records, i.e., timesheets, and be supported by information from the recipient's accounting system, as well as allocated to specific awards, if purchased with federal or pass through funding or used as federal match. Requests for reimbursement of in-kind contributions are eligible as long as the value of each is documented and supported, represents a cost that would otherwise be eligible under the program, and is included in the net award costs in the award budget.

Recipients may initiate drawdowns only when cash is needed for immediate reimbursement and must disburse the funds within three business days. Disbursement means that the recipient no longer controls the money (e.g., a check has been sent to a vendor). If the funds are not disbursed within three business days, FTA can charge interest beginning on day four. In most cases, recipients request funds on a reimbursement basis (after expenses have been incurred and paid). In some cases, (e.g., large bus procurements), recipients request funds prior to issuing a check. This procedure is acceptable as long as the funds are disbursed within three business days.

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

For funds received from disallowed costs, and the Federal Government's proportionate part of any amounts it recovers from third parties or other sources, including refunds due and amounts recovered from third parties or other sources, interest assessed, penalties, and administrative charges, recipients are required to return to the Federal Government any excess Federal payments.

## FLEXIBILITIES AND ADMINISTRATIVE RELIEF

The impact of the supplemental funds on the Comprehensive Review process is addressed at Question F8 and in the ECHO Transaction Sampling Procedures at the end of this review area.

## INDICATORS OF COMPLIANCE

- a. *Does backup documentation support the amount of the ECHO draw? If the recipient's expenses are supported by multiple fund sources (i.e. federal, state, local) or multiple agencies, does the recipient documentation show the allocation of the expenses? If the recipient uses volunteered services or in-kind contributions, does it fully document these services?*
- b. *How are drawdowns tied to the award budget? Were any award budget line items overcharged? Are all expenses charged to the award eligible under the award's terms and conditions and scope of work?*

- c. *Did the recipient notify FTA two business days in advance of any drawdowns in excess of \$50 million or five business days in advance of any drawdowns in excess of \$500 million?*
- d. *Did the recipient return any amounts due to the Federal Government resulting from Federal claims and debts, excess payments, disallowed costs, refunds due, and other amounts or similar transactions?*

#### **INSTRUCTIONS FOR REVIEWER**

Review award budgets to determine type of funds and matching requirements and sources. Review progress reports to verify changes in allocated amounts and/or changes in sources of funds used for local match. During discussion with the regional office, inquire if there were any Federal claims and debts, excess payments, disallowed costs, refunds due, and other amounts demanded from the recipient and if such accounts have been returned.

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

- The purpose of the draw was eligible under the award.
- The recipient's records show funds requested are tracked back to the approved award budget, and the recipient has made the appropriate requests for budget amendments or revisions including any necessary prior approvals.
- The calculation and documentation were accurate and complete.
- If documentation includes indirect cost, review cost allocation plan to confirm the correct rate was used.
- The funds were disbursed within three business days.
- FTA was timely notified for drawdowns exceeding \$50 million and for drawdowns exceeding \$500 million.
- If any refunds, obtain and review documentation that the recipient returned amounts as demanded.

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

Complete Table F4 at the end of this section.

#### **POTENTIAL DEFICIENCY DETERMINATIONS**

NOTE: The regional office should be alerted to payment-related deficiencies to consider if suggested corrective actions should also include payment review or suspension is required to address the findings and remediate the recipient's non-compliance with federal financial requirements. If included, the requirements to lift these restrictions should be noted in the report or in separate documentation from the regional office.

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

#### **DEFICIENCY CODE F4-1: ECHO documentation deficient**

**SUGGESTED CORRECTIVE ACTION:** The recipient must submit procedures for documenting ECHO draws. Discuss with the FTA regional office if it wants to require the recipient to submit

ECHO requests for prior approval. The recipient must document and work with the FTA regional office to reimburse FTA for ineligible expenses charged to awards, plus applicable interest\*. The recipient must implement and submit documentation of training conducted of the appropriate staff on new policies and procedures.

\*NOTE TO REVIEWER: FTA determines when it will charge interest. These typically included when:

1. The recipient charged ineligible expenses and FTA determines interest is due;
2. When FTA's Office of Budget and Policy (TBP) declares an official debt and issues a repayment demand letter. At that point, the recipient has a grace period (approximately 30 days) to repay funds. At the end of the 30-day grace period, interest begins to accrue; or
3. The recipient did not disburse funds within three business days of receipt (unless drawing down funds on a reimbursement basis.) In this case, the reviewer is to work with the regional office to determine next steps for this corrective action.

The recipient is deficient if it held FTA funds on the fourth day after FTA funds were received or if the recipient drew more funds than were allowed.

DEFICIENCY CODE F4-2: Funds not disbursed timely

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

NOTE TO REVIEWER: The reviewer is to coordinate with the FTA regional office to determine the appropriate corrective action for this deficiency.

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

DEFICIENCY CODE F4-3: Federal funds not returned

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

NOTE TO REVIEWER: The reviewer is to coordinate with the FTA regional office to determine the appropriate corrective action for this deficiency.

## **GOVERNING DIRECTIVE**

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

The financial management system of each recipient or subrecipient must provide for the following... (4) Effective control over, and accountability for, all funds, property, and other assets. The recipient or subrecipient must safeguard all assets and assure that they are used solely for authorized purposes. See §200.303.