

Chapter 6: Project Financial Management

Background

As primary recipient of FTA funds and as the State agency designated to administer such funds for public transit activities in Kentucky, KYTC/OTD will manage the fiscal elements of these programs in accordance with its existing procedures, FTA guidelines, and other applicable state and federal regulations.

Project Identification

All projects included in the annual program of projects shall be assigned a project number per contract for use as identification purposes.

Pre-award Requirements

Upon initial approval of an applicant for inclusion in the Program of Projects, the KYTC/OTD shall review each project for the following:

- Determine that the subrecipient's accounting system is adequate and capable of segregating, accumulating, and maintaining allocable and allowable costs as they apply to the project and/or contract and to document necessary facts that might be needed in past audits;
- Establish that proper record retention will be maintained after project completion (record retention shall be required for a three (3) year period after payment of final billing or completion of the project, whichever occurs last);
- Establish procedures or issue any necessary specific instructions to the project that would help prevent any future misunderstanding;
- Establish that proposed costs are reasonable and in line with those that the subrecipient is currently incurring;
- Establish that the subrecipient has the financial capability to perform the services required.

- Determine that the applicant has an inventory procedure to assure that equipment purchased with federal and/or state funds can be accounted for at any time (documentation of the inventories should be on file at all times); and
- Assure that the applicant can comply with the provisions of OMB Circular A-133/2 **CFR PART 200, Subparts A-F.**
- Assure that applicant's policies are in compliance and current with Civil Rights, including Title VI, EEO, DBE, and ADA.

Establishment of Project Accounts

Standards for Accounting

The KYTC/OTD and recipient shall establish and maintain, as a separate set of accounts, or within the framework of an established accounting system, accounts for the project in the manner consistent with Office of Management and Budget (OMB) procedures. The KYTC/OTD and the recipient must establish and maintain an adequate financial management system that provides for:

1. Accumulation and reporting of accurate, current and complete financial information for each grant.
2. Records that identify the source and application of funds for grant-supported activities.
3. Control and accountability for all funds, property, and other assets, including safeguards against unauthorized use.
4. KYTC/OTD will compare the actual outlays with budgeted amounts for each grant funded.
5. KYTC/OTD will assure the shortest elapsed time between U.S. Treasury deposits and KYTC/OTD disbursements.
6. Recipient must comply with, A-133/2 **CFR Part 200, Subparts A-F** and the following procedures for determining reasonableness, eligibility, and proper allocation of costs:
 - a) OMB Circular A-87 revised "Cost Principles for State and Local Government"
 - b) A-122 "Cost Principles for Nonprofit Organizations"
 - c) Common Rule 49 CFR Part 18; Uniform Administrative Requirements for Grants and Cooperative Agreement to State and Local Government;
 - d) Common Rule 49 CFR Part 19; Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations.
7. Source documentation must support accounting records.
8. Procedures that assure timely and appropriate resolution of audit findings and recommendations.
9. The KYTC/OTD and the Recipient must meet the following accounting system standards:
 - a) The accounting system must be complete and reliable. It must embrace and accurately represent the status of all funds, property, assets and liabilities, obligations, receipts and revenues, expenditures and costs.
 - b) Recipient must support and show documentation for financial transactions in the recipient's files with pertinent documents available for audit. All transactions

must be recorded when made, and in a way that readily permits them to be traced from originating documents through summary records and financial reports.

Requests for Payment

Before a subrecipient may begin requesting funds, an application must be approved and on file, and an agreement must exist between the subrecipient organization and the KYTC.

A subrecipient shall submit invoices on forms and in a manner prescribed by the KYTC/OTD.

Upon receipt of a Request for Payment Invoice, the KYTC/OTD and Division of Accounts will fully examine the invoice to verify that all applicable requirements are met.

Revisions and Amendments to the Approved Contract

During the course of the contract it may become necessary to make modifications to the project in the form of budget revisions, or contract amendments.

KYTC/OTD Contract Amendment:

A change in the scope or purpose of a contract or the federal and/or state participation.

Requirement - A contract amendment is required when proposed changes in the contract would:

- Alter the scope or purpose of the approved project; or
- Require an increase in the project amount or a change in the federal/state/local matching ratio.

Change of Scope or Purpose - The scope or purpose of a contract is changed by any of the following circumstances:

- Changes in the scope that will involve an increase in the federal and/or state financing of the project; or
- Adding or deleting a project budget category from the contract; or
- Changes to the size, or physical characteristics of items being purchased that are originally under contract; or
- Changes that will increase or reduce the number of units to be purchased or constructed where the change exceeds the greater of one unit or 10 percent of the number approved in the line item; or
- Changes that will extend the period of availability of funds; or
- A change that the KYTC/OTD concludes is significant which modifies a category, project description, or the size of items specified in any contract.

Budget Revision

Changes may be made in the form of a budget revision in the purpose, scope and amount of the contract will remain consistent with the applicable Approved Project Budget. This may include a transfer of funds between or among budget categories within an approved contract. A budget revision cannot be used to change the purpose, scope, total dollar amount or terms and conditions of the contract. The subrecipient may not make budget revisions without the prior approval of KYTC/OTD.

Procedures

Recipient must follow these procedures for any contract change or budget revision.

- All requests for contract amendments or budget revisions must be submitted in writing to KYTC/OTD along with appropriate justifications.
- KYTC/OTD shall notify the subrecipient in writing regarding approval, modification, or rejection.
- In order for Contract Amendments to be effective, it must be fully executed by both the agency and KYTC/OTD.

Close-Out and Audit Procedures

Contract Closeout

Grant projects are closed at the end of the contract period. The Project Manager, Branch Manager, Staff Assistant and Executive Director will determine at what point a project is ready to close. Fiscal staff is directed to close out the project on the EMARS system. When a capital 5310/5311/~~5316/5317~~ 5309, 5339 project has reached the end of the contract period and there is a balance of funds, the Project Manager will prepare a letter to the transit system stating that this project will be closed. In some instances, capital contracts may be extended by six (6) months/~~or longer~~ with sufficient justification and documentation from the transit system. The decision to extend the period of a grant will be made by the Project Manager, the Branch Manager/Staff Assistant, and the Executive Director. A contract amendment will be necessary to extend the period of a contract. All close-out documentation should be maintained in the Project File. In case of a finding of overpayment as a result of the audit report, the Project Manager will seek a

refund from the transit system. The Executive Director will direct fiscal staff to process the refund within the EMARS system and the appropriate grant fund. These funds are immediately re-programmed within the federal grant scope.

Throughout the grant year, the Project Manager will monitor all revenue earned by a transit system. At the end of the Section 5311 operating grant year, the Project Manager must determine whether all revenues earned by the system have been properly documented and utilized or whether a refund of federal funds is required. Any excess contract revenue must have OTD approval to be placed back into the subgrantee's system for "mass transit purposes only." It is preferred for transit agencies to maintain sufficient cash and /or receivables to pay obligations and demonstrate Operational Financial Stability (OFS). The first three months of each fiscal year (July-August-September) normally include higher expenses due to annual cost such as insurance.

The total amount of transit operating expenses from the first three months of the grant's past year will be used to determine the agency's Operational Financial Stability (OFS). The total (before farebox) amount of transit operating expenses incurred during the previous year (July-August-September) will be the amount of excess revenues, if available, to maintain solvency or OFS. Section 5311 federal operating dollars may not be accessed until a transit agency's excess revenues are equal to or less than OFS amount. Any excess revenues carried forward must have written approval from KYTC/OTD.

Section 5311 financial assistance is to assist areas that have a "demonstrated financial need."

Capital projects are not closed by OTD until the equipment has met its useful life (vans 100,000 miles or 4-years or older). There are three "close outs" recognized

- (1) State "subgrantee" close out per project period;
- (2) State/Federal Close out recognized by FTA. Federal approval is required after an entire grant is closed; and,
- (3) Final State close-out: This recognizes all equipment in a grant. The retention period has been met and all files are archived or disposed.

Audit

The KYTC/OTD and recipient shall permit the Secretary and the Comptroller General of the United States or any of their duly-authorized representatives to inspect all work, materials, payrolls, and other data and records with regard to the project, and to audit the books, records, and accounts of the KYTC/OTD and recipients with regard to the project. To the extent the charges for such audits are necessary for the administration and management of functions related to the project, the costs of such audits are allowable. KYTC/OTD and recipients shall comply

with the Single Audit Act Amendments of 1996 and OMB Circular A-133/2 CFR Part 200,

Subparts A-F.

Each recipient must submit two copies to KYTC/OTD by March 31st of each year or thirty days after the completion of the OMB Circular A-133 Audit whichever comes first.. KYTC/OTD will log each audit received and submit ~~any~~the audit report ~~greater than \$500,000~~ \$750,000 to Division of Internal Audits ~~for further review~~ to perform a desk review in accordance with generally accepted auditing practices. OTD will conduct a financial and grant review of the audit report. If a finding is found, by Internal Audits or OTD, a letter or follow-up asking for an explanation on the findings will be made. The Federal Audit Clearing House (FAC) must receive a copy by March 31, of each year or 30 days after completion of the report, whichever comes first.