



## State DOT Financial Auditing Requirements for Public Transportation Assistance Programs

### DETAILS

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## NATIONAL COOPERATIVE HIGHWAY RESEARCH PROGRAM

Senior Program Officer: Gwen Chisholm-Smith

# Research Results Digest 368

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## STATE DOT FINANCIAL AUDITING REQUIREMENTS FOR PUBLIC TRANSPORTATION ASSISTANCE PROGRAMS

This digest summarizes key findings from NCHRP Project 20-65(33), “Determination of State DOT Financial Auditing Requirements for Their Public Transportation Assistance Programs,” conducted by The DMP Group. It documents various policies and procedures used by state departments of transportation (DOTs) for conducting grantee financial audits, presenting best practices currently in use to enable state DOTs to enhance and streamline their current financial auditing requirements. The digest was prepared from the project final report authored by Maxine Marshall, John F. Potts, and Karon J. Cofield, Ph.D.

### SUMMARY

The goal of this research effort was to determine what state departments of transportation (DOTs) require with respect to financial audit requirements for subrecipients. A web-based survey was developed to obtain general information. The survey became the basis for further research, including a review of documents available in the DOTs’ state management plans and on DOT and state audit division websites. Forty-five state DOTs and the District of Columbia DOT responded to the survey. (For purposes of analyzing responses to specific questions in the survey, the phrase “state DOTs” includes all respondents to the question including, when applicable, the District of Columbia DOT.)

Of the state DOTs that responded to the survey, 45 percent indicated that they perform a limited review of subrecipient financial audits; 10 percent responded that they rely on other departments within their agencies to perform this function; and 20 percent described a more involved role in conduct-

ing a detailed review and assessment of the financial audit, or that the staff conducted financial audits of subrecipients.

Fifty-six percent of respondents indicated that they do not have audit manuals with guidelines that auditing firms must follow for subrecipient financial audits. Several state DOTs indicated that they rely on other sources, such as contractors’ state licensing board standards, state internal audits, or federal Office of Management and Budget (OMB) circulars, or on standards as determined by the secretary or commissioner of the DOT.

Seven state DOTs indicated that they have their own guidelines that audit firms are required to follow. Three of these (New York, West Virginia, and Michigan) cited state statutes that contain subrecipient audit requirements. The remaining state DOTs identified administrative policies, usually issued by the state’s chief financial officer, as the source of financial audit guidelines. One state DOT (Alaska) identified an audit manual, available on the state’s Department of Administration (DOA) website, which

had programs for the independent auditors to use for state programs and referred auditors to the federal guidelines for federal funding.

Using the results of the survey, the research team identified candidate state DOTs with best practices for further examination. Candidates were drawn from state DOTs representing a broad cross section of agencies. When identifying candidates for further study, the research team considered geography and agency size, with the goal of selecting state DOTs from all regions of the United States and reflective of different resource levels, as measured by the amount of state funding available for transit. Given the focus of the project, the research team also looked for state DOTs that supplied descriptions of their financial auditing requirements or practices above and beyond OMB Circular A-133 requirements.

On the basis of these criteria, members of the research team identified candidate state DOTs which were then reviewed by the project panel. The four candidates identified by the most panel members became the state DOTs selected to be case studies, as follows:

- **The Kentucky Transportation Cabinet (KYTC), Office of Transportation Delivery.** A model for smaller state DOTs, this agency has developed procedures and tracking spreadsheets that provide an easy-to-use framework.
- **The Oregon DOT Public Transit Division.** A model for medium-sized state DOTs, this agency has implemented electronic reporting procedures for all DOT subrecipients and created a pre-award audit questionnaire for new subrecipients.
- **The Ohio DOT Office of Transit.** A model for medium-sized state DOTs, this agency has created an oversight audit program for its rural (Section 5311) subrecipients.
- **The New York State DOT Bureau of Public Transportation.** A model for large state DOTs, New York—in addition to monitoring subrecipient compliance with federal OMB Circular A-133 audit requirements—has a state single audit requirement for agencies that receive \$100,000 or more in state transportation assistance. New York’s Contract Audit Bureau has developed a 34-page *Guidance for Auditors* that contains specific infor-

mation other state DOTs could use as a basis for providing uniform auditing requirements at the state level.

The research team reviewed materials referenced in the survey responses, examined documents available on the state DOT websites, and conducted telephone interviews to better understand the different policies and procedures these state DOTs use to monitor or conduct financial auditing of subrecipients.

Apart from adherence to the federal single audit requirement as described in OMB Circular A-133, most state DOTs do not have financial auditing requirements for their public transportation assistance program subrecipients. With respect to assuring compliance with this requirement, most state DOTs included provisions in FTA-required state management plans and in written agreements with subrecipients, passing through this requirement to the subrecipients. However, many of the state DOTs did not have written procedures for monitoring and enforcing this requirement. This report describes written procedures that are easy to replicate and that would enable other state DOTs to document compliance with the OMB Circular A-133 requirements.

A limited number of state DOTs (usually those that have significant state funding for public transportation) have financial auditing requirements specific to state statute or regulation. In these cases, the state auditors’ offices have developed written procedures and guidelines for financial audits. This digest provides an executive overview of the Ohio DOT’s oversight audit program and resource information for two additional guides (from New York and Michigan). These examples can be beneficial to other agencies interested in implementing a state-specific financial auditing requirement.

## BACKGROUND

The objectives of this research effort were to

- identify various financial policies and procedures used by each state to assure that the transit funding it provides is appropriately used by the grantees for the purpose(s) intended;
- document the varied frequency, timeliness, and degree of detail required for financial audits among states;
- develop a comparative document describing the different policies and procedures employed by state DOTs to perform this function; and

- identify best practices currently in use to enable state DOTs to enhance and streamline their current financial auditing requirements.

The research team created a distribution list targeted toward individuals in the transit sections of state DOTs (and the DOTs of two territories) with knowledge of auditing of subrecipients and who might be willing to participate in the survey (Appendix A). When the survey needed to be redirected to a different office or person within the DOT, the research team communicated with those state DOTs via telephone and email and followed up accordingly.

The research team designed and distributed a web-based survey with the goal of capturing all the necessary information to determine state DOTs' financial auditing requirements in the least burdensome manner possible (Appendix B). The intent was to capture the unique practices of each state DOT while identifying common practices or those that could be replicated by other states looking to develop financial auditing requirements. Because most of the survey questions were open-ended, respondents had the opportunity to consider and describe their specific operations, which helped facilitate identification of state DOTs as candidates for further analysis of best practices.

Responses to the survey revealed that most states require periodic reporting by their subrecipients of public transportation funds and that this reporting often includes financial and non-financial data. State DOTs indicated that they review these reports to measure the output associated with the funds provided. The public transportation units of state DOTs usually do not have the expertise or internal staff resources to conduct financial audits of each subrecipient of state public transportation assistance; consequently, the state DOTs' internal audit units often are relied on to conduct the audits.

All responding state DOTs indicated that they passed through the federal OMB Circular A-133 requirement that a single audit be conducted of any entity that expends \$500,000 or more in federal funds in a given year. A *single audit* includes both the entity's financial statements and the federal awards. Neither OMB nor FTA has a specific requirement for subrecipients that receive less than \$500,000 per year in federal funds, however; in these cases, state DOTs follow their own procedures for assuring that FTA and state funds are accounted for properly.

The survey revealed that most state DOTs require all subrecipients (regardless of funding levels)

to conduct financial audits to assure that the transit funding provided by the state has been appropriately used for the intended purpose(s). Several state DOTs indicated that they have statutes or administrative policies that describe subrecipient financial auditing requirements.

## SURVEY RESULTS

### Survey Respondents

The survey was sent to all 50 state DOTs, plus the DOTs of Puerto Rico and the District of Columbia. Two state DOTs (Rhode Island and Delaware) did not respond because they have no subrecipients and the survey did not apply to their organizations. Of the 50 remaining DOTs, 46 responded (92 percent) as of March 31, 2011. Table 1 provides a list of the responding agencies.

The respondents were asked about their public transportation assistance programs. Figure 1 shows that most respondents (nearly 98 percent) administered the following FTA formula grant programs:

- Transportation for Elderly Persons and Persons with Disabilities (Section 5310)
- Formula Grants for Other than Urbanized Areas (often called "Non-Urbanized Areas"; Section 5311)
- Job Access and Reverse Commute Program (Section 5316)
- New Freedom Program (Section 5317)

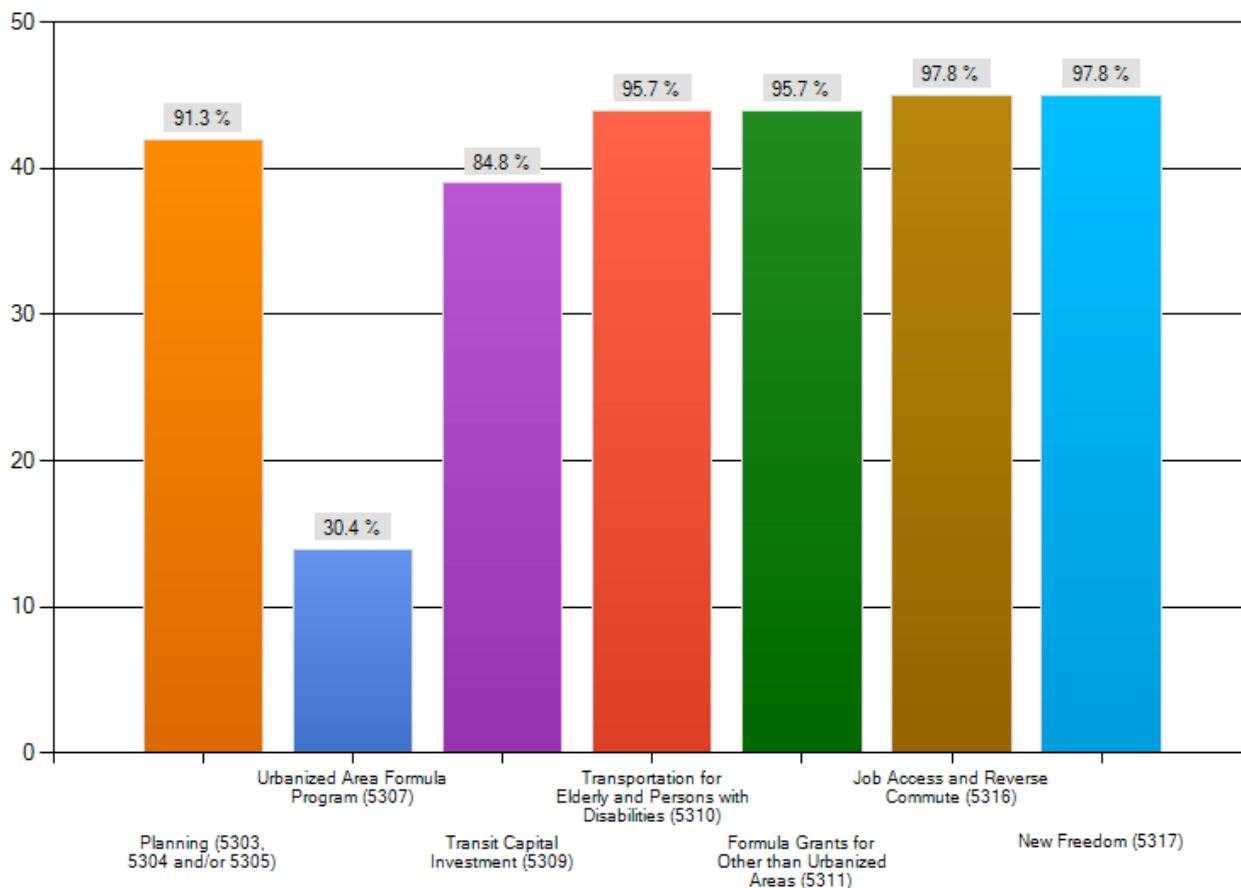
A slightly lower number of respondents (91 percent) administered metropolitan and statewide planning grants (Sections 5303, 5304, and 5305), and 85 percent of respondents administered discretionary transit capital funds (various programs under Section 5309). The range of responses was not significant, with one exception: Just over 30 percent of states reported administering an Urbanized Area Formula Program (Section 5307).

Seven respondents contributed additional comments. These included that the state DOTs also administered federal United We Ride and Over the Road Bus funds. Three respondents added that they administered American Recovery and Reinvestments Act (ARRA) funds made available through the FTA.

Respondents were asked to identify all types of public transit assistance programs for which their states provide funding. Forty of the 46 states (87 percent) responded to this question. As shown in Figure 2, nearly all of the respondents contributed funds

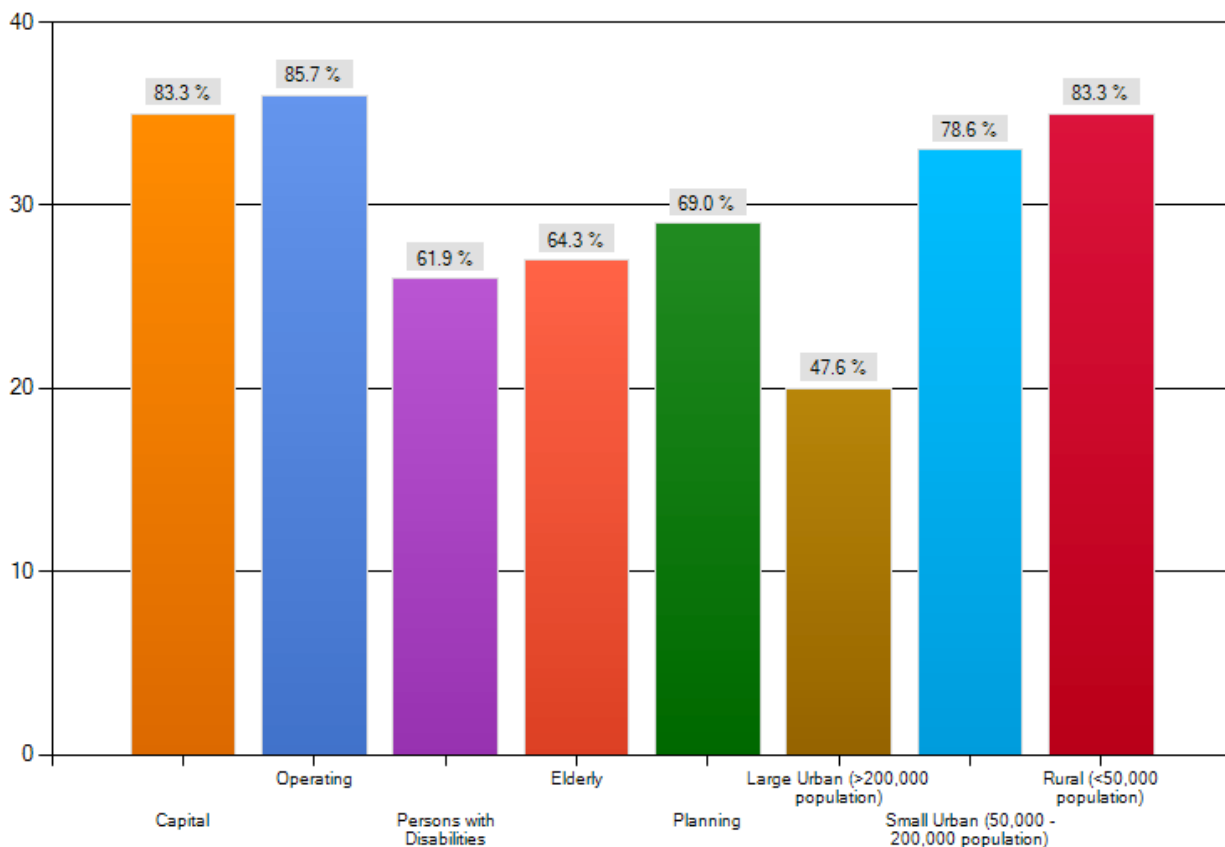
**Table 1** State agencies that responded to the survey.

1. Alabama DOT	24. Montana DOT
2. Alaska DOT	25. Nebraska Department of Roads
3. Arizona DOT	26. Nevada DOT
4. Arkansas DOT	27. New Hampshire DOT
5. Caltrans	28. New Jersey Transit
6. Colorado DOT	29. New Mexico DOT
7. Connecticut DOT	30. New York State DOT
8. District of Columbia DOT	31. North Carolina DOT
9. Florida DOT	32. North Dakota DOT
10. Georgia DOT	33. Ohio DOT
11. Hawaii DOT	34. Oklahoma DOT
12. Idaho Transportation Department	35. Oregon DOT
13. Illinois DOT	36. Pennsylvania DOT
14. Indiana DOT	37. South Dakota DOT
15. Kentucky Transportation Cabinet	38. Tennessee DOT
16. Louisiana Department of Transportation and Development	39. Texas DOT
17. Maine DOT	40. Utah DOT
18. Maryland Transit Administration	41. Vermont Agency of Transportation
19. Massachusetts DOT	42. Virginia Department of Rail and Public Transportation
20. Michigan DOT	43. Washington DOT
21. Minnesota DOT	44. West Virginia DOT
22. Mississippi DOT	45. Wisconsin DOT
23. Missouri DOT	46. Wyoming DOT



**Figure 1** FTA program funds administered by responding state DOTs.





**Figure 2** Percentages of respondents reporting state funding of public transit assistance programs.

for operating and capital expenses for rural and small urban areas. Many state DOTs also contributed funds for the elderly and persons with disabilities. Only 48 percent of respondents contributed state funds to large urban areas (populations greater than 200,000).

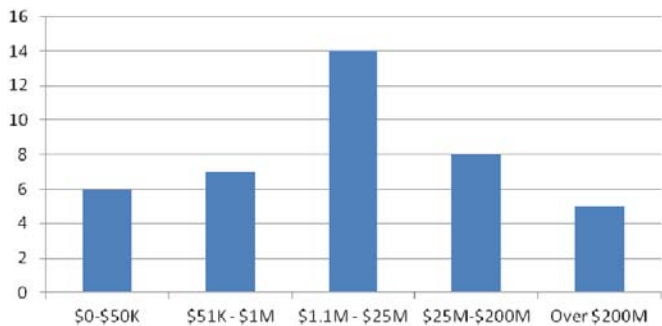
As a gauge of the size of the program, respondents were asked how much state funding was used for public transit. Responses to this open-ended question were grouped to show the ranges of funding. Figure 3 shows that 6 of 40 respondents (15 percent) indicated their state DOTs provided none or very little state funding, while 27 of 40 respondents (nearly 70 percent) indicated that their agencies provided more than \$1 million for public transportation programs in FY 2009.

According to AASHTO's 2010 *Survey of State Funding for Public Transportation*, four states (Alabama, Hawaii, Nevada, and Utah) provided no state funding for public transportation in 2008; three states (Idaho, Montana, and South Dakota) provided less than \$1 million in state funding; and five states

(New York, California, Pennsylvania, Massachusetts, and New Jersey) provided more than \$1 billion in state funding for public transportation.<sup>1</sup> This information was used to identify candidate state DOTs for more study based on the size of the state's public transportation program.

Respondents were asked if their states had an internal audit function for the DOT, including public transportation programs. Some 89 percent of respondents confirmed having an internal audit function for the DOT (see Figure 4). State DOTs that responded "yes" to this question in the survey were asked a follow-up question: "To whom (what position) does this person report?" This question was asked to determine if the audit function is performed within the public transportation unit of the state DOT. The majority of the respondents to this question stated

<sup>1</sup> *Survey of State Funding for Public Transportation: Final Report, 2010*. AASHTO, July 30, 2010. Available at: [http://ntl.bts.gov/lib/34000/34800/34820/Final\\_2010\\_FY\\_2008\\_data\\_\\_ssfp.pdf](http://ntl.bts.gov/lib/34000/34800/34820/Final_2010_FY_2008_data__ssfp.pdf) (accessed December 19, 2011).

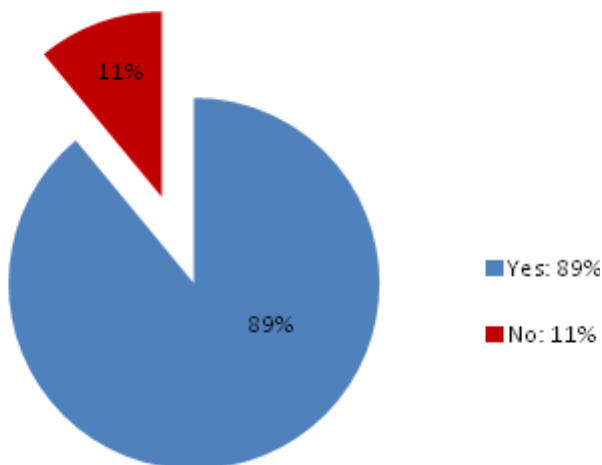


**Figure 3** State funding for transit (FY 2009).

that the internal auditor reported to a position outside of the transit section, such as to the DOT secretary or the chief financial officer.

### Financial Auditing Requirements of State DOTs

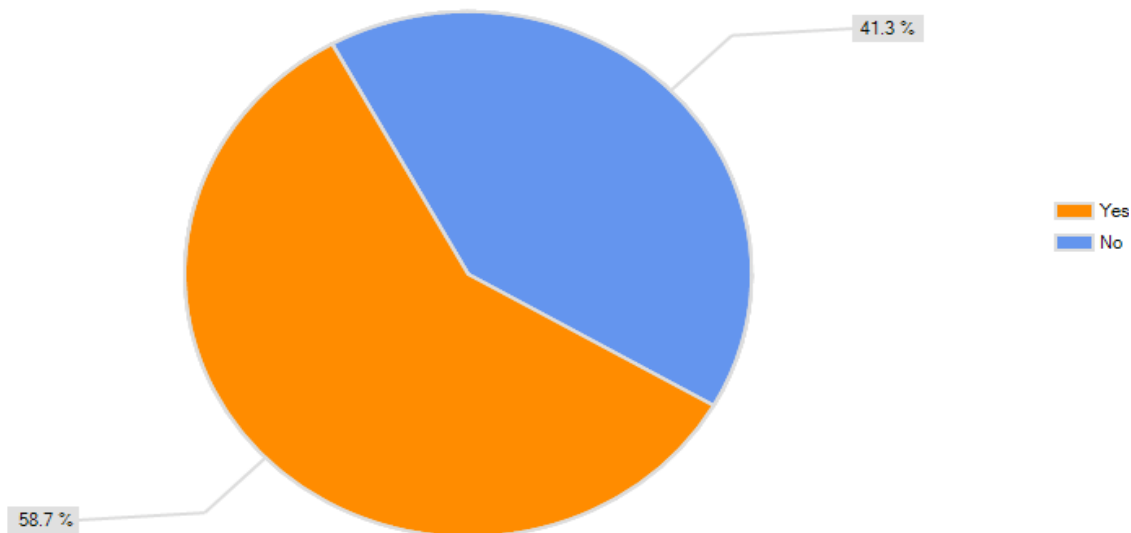
When asked if the state DOT required all subrecipients to have an independent financial audit conducted annually, nearly 59 percent of respondents indicated “yes,” as shown in Figure 5. The majority of the respondents who answered “no” to this question stated that subrecipients whose federal funding fell below the OMB Circular A-133 threshold of \$500,000 were not required to have an independent financial audit conducted annually. One state reported that it required non-profit subrecipients to complete a sworn statement of expenditures per state law. In that



**Figure 4** Percentage of responding state DOTs with and without an internal audit function.

state, more than 95 percent of the subrecipients had submitted annual independent financial audits.

Twenty-three state DOTs (50 percent of all respondents) indicated that their states had financial audit requirements for subrecipients other than the federal OMB Circular A-133 single audit requirement. Of that group, 12 respondents identified administrative procedures found in grant agreement terms and auditing or accounting policies as the basis for the non-federal audit requirements. Several state DOTs reported having state administrative codes or uniform accounting and auditing practices that required audits.



**Figure 5** Percentage of respondents that require all subrecipients to have an annual independent financial audit.

## Who Conducts and Pays for Financial Audits

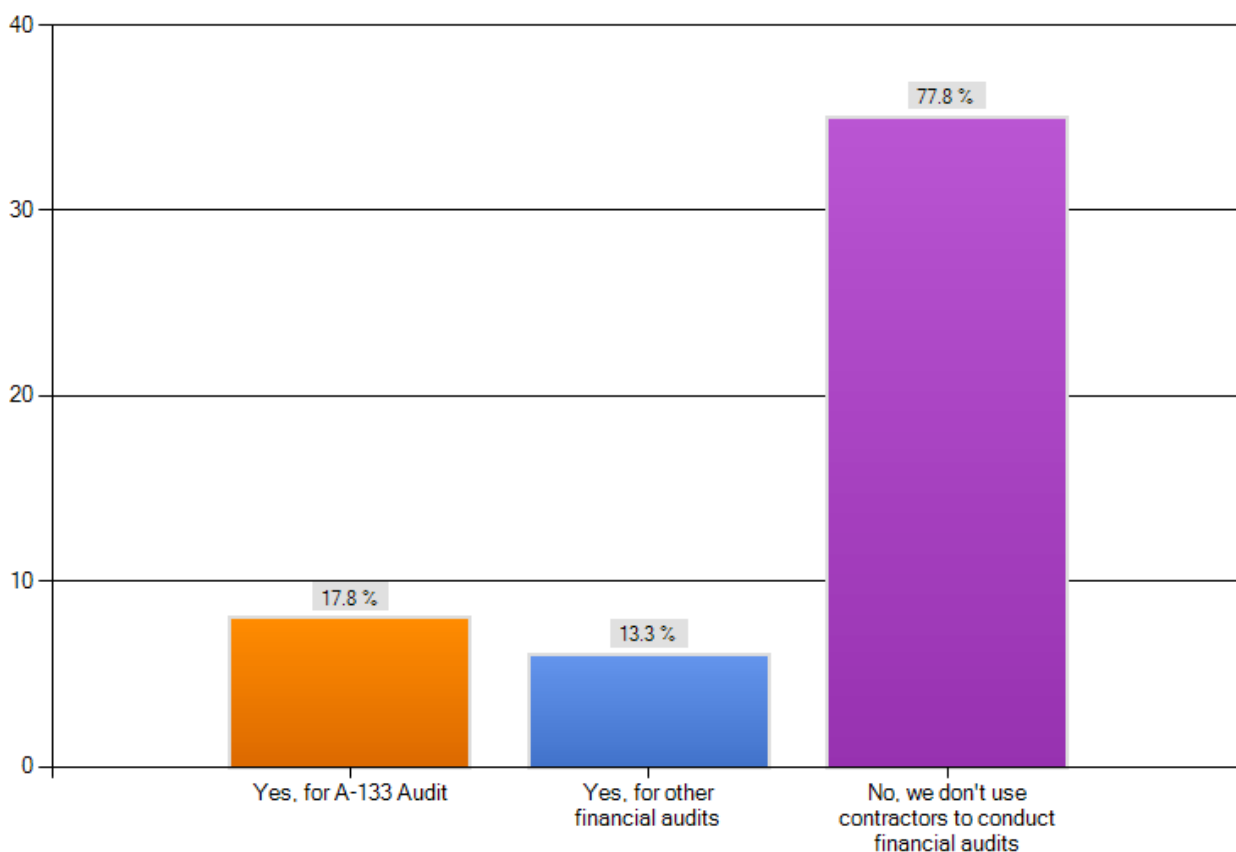
A majority of respondents indicated that they did not use contractors to conduct financial audits (Figure 6). However, some state DOTs reported direct hiring of contractors to conduct OMB Circular A-133 audits (17.8 percent) or other financial audits (13.3 percent).

By far, most state DOTs allowed the subrecipients to hire independent auditors to conduct their financial audits. Only two state DOTs reported involvement in selection or approval of the certified public accounting (CPA) firms used by subrecipients, other than providing the general procurement oversight of subrecipient third-party contracts, such as when the amount of the contract exceeded a \$25,000 threshold.

Most of the state DOTs indicated that they paid for all or a portion of the cost of subrecipients' financial audits (Figure 7). When asked to describe

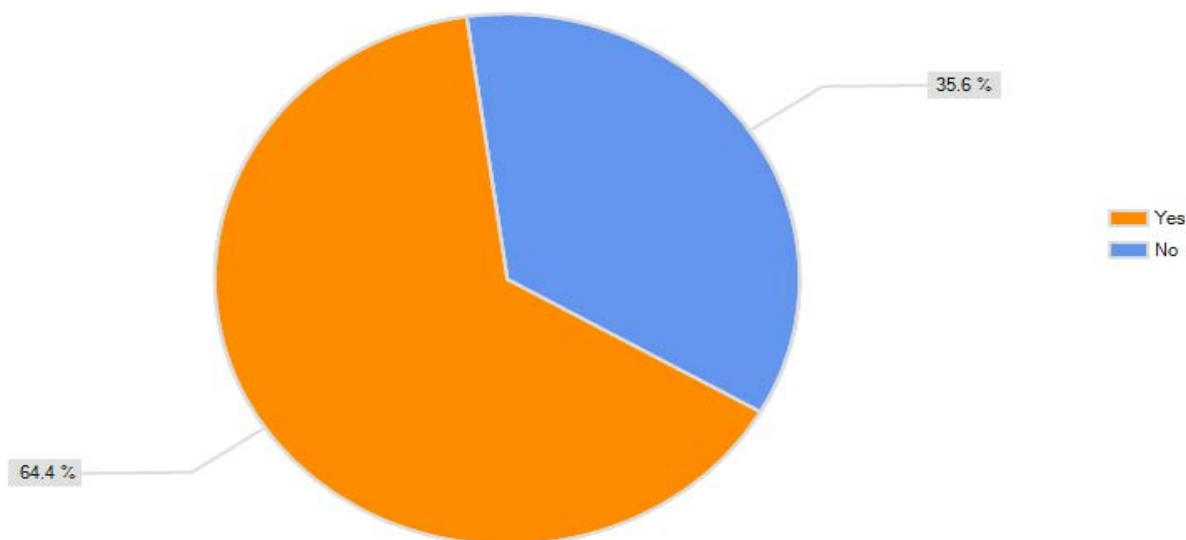
how the state funds the audits, 22 of 29 state DOTs (76 percent) indicated that a subrecipient's financial audit was an eligible operating expense. Associated comments from respondents included the following statements:

- An operating assistance subsidy may be used to offset costs.
- Through a cost allocation plan, they would be reimbursed for a portion of the cost.
- FTA funds pay for this and subrecipients can be eligible for reimbursement if a line item expense is submitted in their 5311 budget plan.
- Subrecipients may request at least partial reimbursement for cost but most do not.
- A proportionate amount of the audit can be charged to FTA grants.
- The state provides financial assistance as a percentage of annual operating expenses.



**Figure 6** Respondents' use of contractors to conduct subrecipients' financial audits.





**Figure 7** State DOTs reporting that they provide payment for subrecipients' financial audits.

### Roles of State DOTs in Subrecipient Financial Audits

When asked what other role(s) they assumed in subrecipient financial audits, transit staff from responding state DOTs described roles that could be grouped into the following three categories:

1. State DOTs that perform a limited review of subrecipient financial audits (45 percent)
2. State DOTs that rely on other departments within the agency to perform this function (10 percent)
3. State DOTs that conduct a detailed review and assessment of the financial audits of subrecipients, or that conduct the financial audits of subrecipients (20 percent)

### Financial Audit Reporting Submission Deadlines and Consequences

Of the 37 state DOTs that responded to this question, 80 percent indicated that they require all subrecipients to submit the complete audit reports to the state. Twenty percent do not require submission. Of those states that do not require all subrecipients to submit a completed audit report, the common threshold is the federal (OMB Circular A-133) requirement.

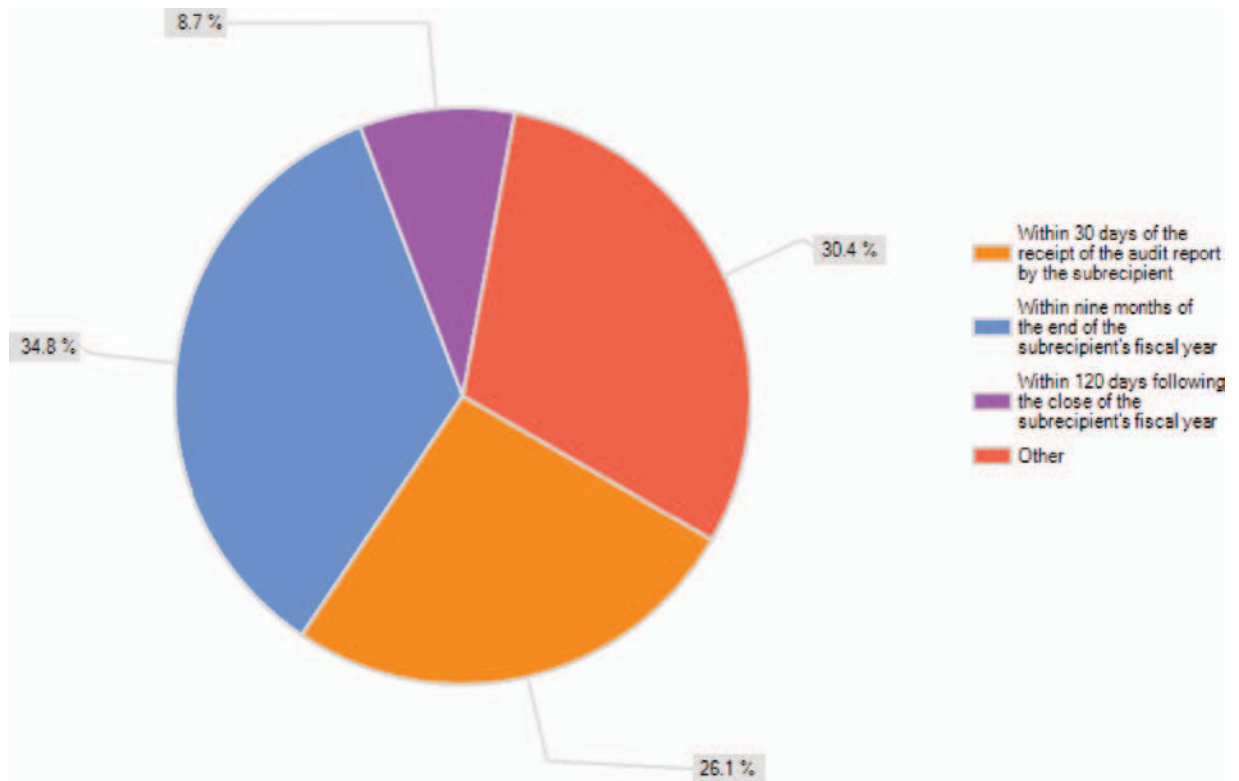
Submission deadlines are critical elements of audit procedures (see Figure 8). Some audit reports are submitted during the grant application process. Time frames vary for deadlines, but only two state

DOTs reported not having specific deadlines or time frames. Information about deadlines supplied by respondents can be summarized as follows:

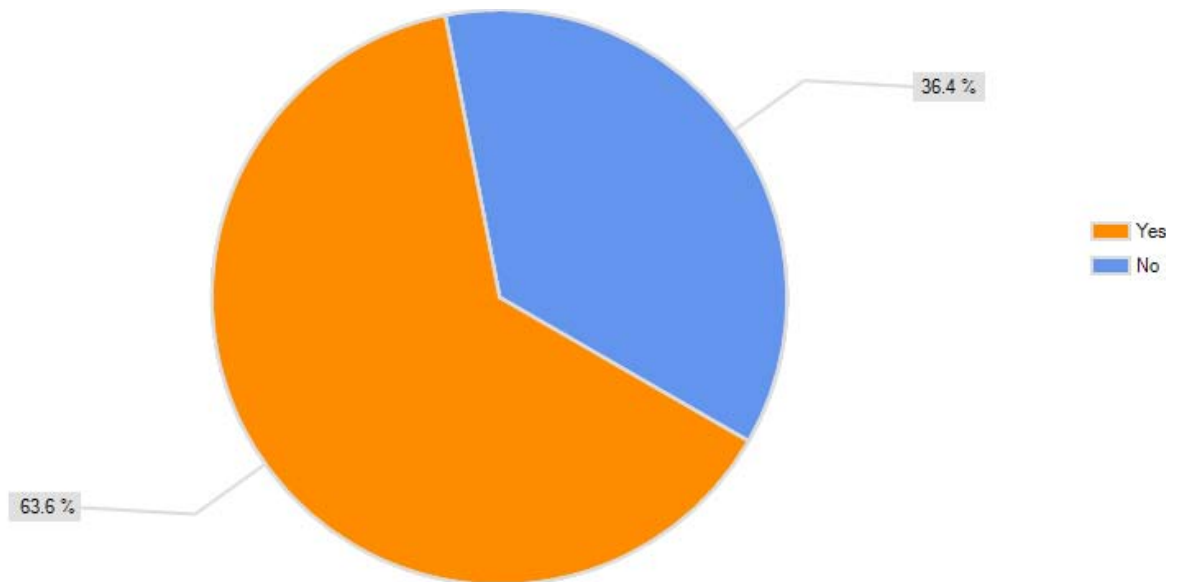
- State DOTs that require submission within 9 months of the end of the subrecipient's fiscal year, consistent with OMB Circular A-133 requirements (34 percent);
- State DOTs that have other deadlines, ranging from within 6 months from the end of the subrecipient's fiscal year to a specific date, such as June 30th (30 percent); and
- State DOTs that require submission within 30 days of the receipt of the audit report by the subrecipient (26 percent).

Two-thirds of the respondents indicated that their states imposed consequences for late submission of financial audits (Figure 9). These consequences generally consisted of some type of delay, withholding, or detaining of current funding or jeopardized future funding. Examples of consequences listed by respondents included the following:

- A subrecipient may be placed in lower category to receive funding.
- A subrecipient may be removed from the "good standing" list, with the result being withholding of future funding or removal from eligibility to receive future funds.
- A subrecipient's contract may be suspended.
- Payments for the current project may be suspended.



**Figure 8** Submission deadlines for annual (OMB Circular A-133 or other) financial audits.



**Figure 9** State DOTs reporting consequences for late submission of subrecipients' financial audits.

- An independent audit may be arranged with the cost charged to the grant retainage (a retainage of 5 percent held from all reimbursements).
- “Letters of noncompliance” may be sent to all state agencies that provide funding to that subrecipient, with a warning sent to the subrecipient that further consequences will result if the subrecipient is not in compliance with state DOT requirements.

## Subrecipient Financial Audit Manuals or Guidelines

Thirty-nine state DOTs responded to the question, “Does your state have any audit manuals/guidelines that CPA firms must follow?” The question applied to OMB Circular A-133 and other financial audits. Of the respondents, 22 state DOTs (56 percent) indicated that they do not have audit manuals/guidelines that auditing firms must follow for subrecipient financial audits. Several states indicated that they rely on other sources, such as contractor’s state licensing board standards, state internal audits, OMB Circulars, or standards as determined by the secretary or commissioner of the state DOT.

Seven states had their own guidelines that audit firms were required to follow. Three of these states (Michigan, New York, and West Virginia) cited state statutes that contained subrecipient audit requirements. The remaining four states (Alaska, Maine, North Carolina, and Oregon) identified administrative policies, usually issued by the state’s chief financial officer, as the source of financial audit guidelines. One state (Alaska) identified an audit manual available on the state’s Department of Administration (DOA) website. The website included links for downloadable software for the independent auditors to use for state programs, and the auditors were referred to the federal guidelines for federal funding. This guidance appeared to be intended for consultants and architects.

## STATE DOT BEST PRACTICES

### Federal Requirements (OMB Circular A-133)

Most state DOTs reported only following federal OMB Circular A-133 requirements. OMB Circular A-133 places responsibility on pass-through entities, such as state DOTs, to monitor all subrecipients of

federal assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The monitoring process includes identifying and ensuring that subrecipients of federal awards have met the audit requirements for that fiscal year. Although most state DOTs include this requirement in their state management plans and in subrecipients’ grant agreements, many state DOTs do not appear to have standard operating procedures for assuring compliance.

## State Requirements

Six states cited statutes or laws requiring financial audits of subrecipients and an additional four states described state administrative policies addressing financial audit requirements above and beyond the OMB Circular A-133 requirements.

Using the results of the survey, the research team sought to identify state DOTs whose financial auditing requirements represented best practices to be considered for more detailed description. In recommending state DOTs for further study, the research team considered

- geography—all regions of the United States;
- agency size—representing differing resource levels, as measured by the amount of state funding available for transit; and
- financial auditing best practices—based on brief descriptions of the state DOT’s financial auditing requirements or practices.

Ultimately, four agencies (from Kentucky, Ohio, Oregon, and New York State) were selected from among the candidate state DOTs (see Table 2). These agencies represent a cross-section of agencies that have implemented procedures and practices for requiring subrecipients to conduct annual financial audits and for reviewing the audits to ensure that program funds are used for their intended purposes.

The research team reviewed the materials referenced in the survey responses, examined documents available on the state DOT websites, and conducted telephone interviews with the selected state DOTs to better understand the different policies and procedures used to monitor or conduct financial auditing of subrecipients. Brief descriptions of each state’s approach to auditing subrecipients follow, with selected sample documents reproduced in Appendix C.

**Table 2** State DOTs selected for case studies, ranked by agency size.

State DOT	Region	Agency Size*	Highlights
KYTC, Office of Transportation Delivery	South	Small (less than \$1 million)	<p>Model for smaller state DOTs that may lack staff or resources to conduct in-depth audit reviews or financial audits of subrecipients.</p> <p>Procedures for monitoring OMB Circular A-133 audit requirements provide an easy-to-use framework and tracking spreadsheets adaptable for use by other small state agencies.</p> <p>Procedures also provide documentation that KYTC is fulfilling its OMB Circular A-133 obligation to monitor its subrecipients.</p>
Oregon DOT, Public Transit Division	West	Medium (\$1 million to \$50 million)	<p>Model for medium-sized state DOTs.</p> <p>Implemented electronic reporting procedures for all DOT subrecipients, as well as a special <i>Pre-Award Audit Questionnaire for New Subrecipients</i>.</p>
Ohio DOT, Office of Transit	Midwest	Large (greater than \$50 million to \$500 million)	<p>Model for medium-sized state DOTs.</p> <p>Created an <i>Oversight Audit Program</i> for its rural (Section 5311) subrecipients.</p> <p>In 2012, a state auditor dedicated to the Section 5311 program is expected to complete 120 desk audits and five site audits.</p>
New York State DOT, Bureau of Public Transportation	East	Largest (greater than \$500 million)	<p>Model for large state DOTs; the Bureau of Public Transportation works closely with a Contract Audit Bureau (CAB) that is also part of the state DOT.</p> <p>Administers more than \$4 billion in state Mass Transportation Operating Assistance and \$33 million in FTA funding annually. In addition to monitoring subrecipient compliance with OMB Circular A-133 audit requirements, New York State DOT has a state single audit requirement for agencies that receive \$100,000 or more in state transportation assistance.</p> <p>A 34-page <i>Guidance for Auditors</i> developed by the state's CAB contains specific information that other state DOTs could use as a basis for providing uniform auditing requirements at the state level. The guidelines also incorporate OMB Circular A-133 requirements where applicable.</p>

\*Based on amount of state funding available for public transportation listed in the AASHTO 2010 Survey of State Funding for Public Transportation.

## THE KENTUCKY TRANSPORTATION CABINET

The Governor of Kentucky has designated the KYTC as the agency responsible for administering FTA programs for the state. Within KYTC, the Office of Transportation Delivery (OTD) is responsible for the administration of all FTA programs awarded directly to the state. OTD also administers a little less than \$1 million in state funds, used as an “up to 10 percent (10%)” match for capital purchases made using FTA funds. No other state funds are dedicated to public transportation. OTD’s executive director reports directly to the Kentucky secretary of transportation and is supported by a staff of 16 full-time employees, 9 of whom are dedicated 100 percent to FTA grants. In FY 2010, OTD awarded FTA program funds to subrecipients as follows:

- Formula Grants for Non-Urbanized Areas (Section 5311)—24 subrecipients
- Transportation for Elderly Persons and Persons with Disabilities (Section 5310)—13 subrecipients
- Urbanized Area Formula Program (Section 5307)—two small urban subrecipients

OTD also administers funds related to the Job Access and Reverse Commute Program (Section 5316) and New Freedom Program (Section 5317).

### Source of Financial Audit Requirement

The KYTC/OTD requires all subrecipients to submit copies of annual audits or financial statements, regardless of the amount of funding. The following requirement, while referencing the OMB Circular A-133 audit requirement, applies to *all* subrecipients.

According to the *KY State Management Plan*, dated June 16, 2011, KYTC/OTD subrecipients shall comply with the Federal Single Audit Act Amendments of 1996 and OMB Circular A-133.

Each (sub) 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. KYTC/OTD will log each audit received and submit the audit report to Division of Internal Audits 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.

### Procedures for Obtaining and Reviewing Subrecipient Financial Audits

Within KYTC, the Office of Audit has developed procedures that define the structure and responsibilities of the office.<sup>2</sup> Within the Office of Audit, the Internal Audit Branch (IAB) is responsible for monitoring subrecipient compliance with OMB Circular A-133.

In 2007 and 2008, the state auditor raised concerns about KYTC’s documentation of payments to subrecipients and contractors for federal highway planning and construction funds. Subsequently, the FHWA called for improvements in subrecipient oversight by KYTC, noting that subrecipients lacked an understanding of federal-aid requirements.

In 2008, the IAB provided training for KYTC departments to address these concerns. The training was based, in large part, on procedures already developed and in use by the OTD for oversight of its subrecipients. The training described the basic requirements of OMB Circular A-133, as well as KYTC’s responsibilities, and required all departments within KYTC to annually create a spreadsheet of all subrecipients and disbursements. The spreadsheet was to contain the following column headings:

1. Subrecipient Name
2. Contract Number
3. Catalog of Federal Domestic Assistance (CFDA) Number
4. Project Description
5. Award Date
6. Award Amount
7. Accts./Memo

These procedures were intended to allow KYTC to actively and routinely identify those subrecipients who met the OMB Circular A-133 audit threshold of expending more than \$500,000 received in federal funds during a fiscal year. The procedures

<sup>2</sup>Commonwealth of Kentucky Transportation Cabinet. *Audits Guidance Manual*. September 2007. Available at: <http://transportation.ky.gov/organizational-resources/policy%20manuals%20library/audits.pdf> (accessed December 19, 2011).



prescribed that, for subrecipients receiving less than \$500,000 in federal funds passed through from KYTC, the agency must determine if the amount of federal funds received from all federal sources met the threshold.

KYTC agencies were directed by the Office of Audit to send a letter to each subrecipient requesting that it agree to provide a copy of its OMB Circular A-133 audit to KYTC or certify to KYTC that its federal expenditures did not exceed \$500,000. The 2008 guidance contained a sample form to be returned to the appropriate KYTC agency by September 15th each year.

The guidance specified the following timeline for completion of tasks regarding the review of audit reports:

<b>Date:</b>	<b>Task:</b>
June 30	End of fiscal year.
September 1	Request audit or certification from subrecipient.
March 30	Audit must be completed and received by KYTC.
April 15	Follow-up for missing audits.
Upon receipt	Forward audit to Internal Audit Branch (IAB).
Upon receipt	Review IAB's desk review comments memorandum.
After IAB review	Request corrective action plan, if necessary.
90 days later	Ensure corrective action plan was implemented.

The timeline included a note that, if a subrecipient's fiscal year ended on December 31, all task dates would be moved forward by 6 months.

Following a desk review of the OMB Circular A-133 audit, the Manager of IAB was to send a memorandum to the head of the appropriate agency. (A copy of the memo appears in the 2008 document referenced below.) The memo states that the audit has been reviewed for compliance with Generally Accepted Government Auditing Standards (GAGAS) and notes the amount of federal funds KYTC passed through to the subrecipient. The memorandum describes if there were any reportable findings or instances of non-compliance. The memorandum also identifies the certified public accounting (CPA) firm that conducted the subrecipient audit and whether the CPA firm received an unqualified opinion during its most recent quality control review.

## Internal Systems Used to Track Financial Audit Findings

The 2008 training also established a tracking system to ensure OMB Circular A-133 compliance. The tracking system was a second spreadsheet with the following column headings:

1. Subrecipient Name
2. Date of Audit Request Letter
3. Date Audit or Certification Received
4. Date Audit Sent to IAB for Review
5. Date Memo Received from IAB
6. Date Request Sent to Subrecipient for Corrective Action Plan\*
7. Date of Corrective Action Plan Implementation Verification\*
8. Notification to Chief Audit Executive Regarding Noncompliance\*

\*If applicable

The 2008 training concluded by advising KYTC agencies, including the OTD, of the following responsibilities for assuring compliance with OMB Circular A-133 requirements:

- Disclose to subrecipients the source of federal funds in contracts and agreements, including
  - CFDA title and number,
  - Award name and number,
  - Award year, and
  - Name of awarding federal agency.
- Cite applicable federal laws and regulations in contracts and any supplemental agreements.
- Monitor subrecipients through site visits, reports, and correspondence.
- Comply with OMB Circular A-133 audit requirements for subrecipients spending more than \$500,000 in total federal awards.
- Document, document, document.

## THE OREGON DOT

The Governor of Oregon has designated the Oregon DOT as the agency responsible for administering state and FTA public transportation programs. Within the Oregon DOT, the Public Transit Division (PTD) is responsible for administering approximately \$60 million annually in FTA funding and nearly \$10 million in state funding for public transit. PTD's management team consists of the division administrator, who reports to the operations deputy

director of the Oregon DOT. The PTD division administrator is supported by a staff of 14 full-time employees.

PTD provides grant management and oversight of projects and activities supported with state and federal public transportation funds. In a typical fiscal year, PTD administers funds under the following programs:

- Formula Grants for Non-Urbanized Areas (Section 5311)—33 subrecipients
- Transportation for Elderly Persons and Persons with Disabilities (Section 5310)—67 subrecipients

PTD also administers funds related to the Job Access and Reverse Commute Program (Section 5316) and the New Freedom Program (Section 5317).

### Sources of Financial Audit Requirement

Oregon state law (ORS 297.405) requires all municipal corporations to have their accounts and fiscal affairs audited annually in accordance with Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA).<sup>3</sup> The accounts to be audited and examined may include financial statements or they may consist solely of books, records, and other financial data. Fiscal affairs are all activities of a municipal corporation relating to the collection, receipt, custody, handling, expenditure, or disbursement of public funds.

Oregon law (ORS 297.435) requires every local government (including Mass Transit Districts) exempt from an annual audit or review (expenditures of \$150,000 or less in state funding) to file financial statements with the secretary of state of the Audits Division. The Oregon Administrative Rules provide minimum standards for review of Oregon municipal corporations.<sup>4</sup> The standards include general requirements, a standard agreement between the CPA and the municipality, and the required information that must be examined.

<sup>3</sup>Division 10 Minimum Standards for Audits of Oregon Municipal Corporations. Available at: [http://arcweb.sos.state.or.us/pages/rules/oars\\_100/oar\\_162/162\\_010.html](http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_162/162_010.html) (accessed December 19, 2011).

<sup>4</sup>Division 40 Minimum Standards for Review of Oregon Municipal Corporations. Available at: [http://arcweb.sos.state.or.us/pages/rules/oars\\_100/oar\\_162/162\\_040.html](http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_162/162_040.html) (accessed December 19, 2011).

In addition to these state requirements, the Oregon DOT's State Management Plan for Public Transportation Programs describes specific requirements associated with FTA funds. This document describes the responsibilities of the subrecipient, as follows:

The division requires that subrecipients receiving Federal funds in excess of \$500,000 submit the audit conducted in accordance with Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, And Non-profit Institutions, and the management letter and any other reports that accompany the annual audit. If a subrecipient has a subcontractor responsible for the financial management of federal funds, and the subrecipient itself is subject to this requirement, the subrecipient shall arrange for the division to be sent a copy of the subcontractor's annual audit.

Subrecipients receiving less than \$500,000 in Federal funds must submit to PTD a copy of any annual audit covering the funds expended under current grant agreements with ODOT; and the annual audit of any subcontractor receiving federal funds as a result of grant agreements. An audit is not required, however, if one is conducted, the subrecipient will submit a copy to PTD.

Private for profit organizations who are subrecipients shall be subject to the audit requirements of the Public Transit Division.<sup>5</sup>

### Procedures for Obtaining and Reviewing Subrecipient Financial Audits

Audit reports filed by municipal corporations must be submitted within 180 days following the end of the fiscal year. All municipal governments are asked to submit their audit reports electronically, preferably in PDF format. Since 2004, all audit reports are maintained on the secretary of state's website, where they can be searched and reviewed. The Local Government Audit Report Search page is accessible at <http://egov.sos.state.or.us/muni/public.do>.

Subrecipients that expend less than \$150,000 must file annual financial statements with the secretary of state within 90 days of the end of the

<sup>5</sup>Oregon DOT, *State Management Plan for Public Transportation Programs*, 2009. Available at: [http://www.oregon.gov/ODOT/PT/PROGRAMS/SHARED/MGMT\\_PLAN/2009\\_PTD\\_Mgmt\\_Plan.pdf](http://www.oregon.gov/ODOT/PT/PROGRAMS/SHARED/MGMT_PLAN/2009_PTD_Mgmt_Plan.pdf) (accessed December 19, 2011).

fiscal year. The reporting forms include required information on each agency's registered agent, officers, documentation of fidelity or performance bonds (required to remain exempt from audit requirements), and a report of budgeted and actual transactions.<sup>6</sup>

The Oregon DOT's Audit Division, along with PTD, tracks OMB Circular A-133 audits for compliance. Responsibilities are described in the state management plan as follows:

- The division, or the [Oregon DOT] Internal Audit Division, reviews the annual audits of subrecipients to assure that federal and state transit funds are reported in the audits.
- The division maintains copies of the audits for at least three years.
- The division reviews the management letter accompanying an audit to determine if there are material findings that need to be addressed before grant agreements are executed with the subrecipient.
- The division is responsible to issue management decisions within six weeks on subrecipient audit findings and ensure that subrecipients take corrective action.

Appendix C contains a pre-award audit questionnaire developed by PTD for new subrecipients.<sup>7</sup> The questionnaire is designed to help PTD assess the subrecipient's ability to comply with the requirements associated with FTA funding. Areas covered by the questionnaire include

- general information, including the amount of federal awards from all sources for the previous fiscal year;
- cash management, addressing controls over federal funds, documentation of disbursements, and reconciliation of bank accounts; and
- other areas, covering indirect costs, cost sharing, compliance, and procurement.

<sup>6</sup>Oregon Secretary of State, Audits Division. *Report in Lieu of Audit (Revised 2008)*. Available at: <http://www.sos.state.or.us/audits/pages/municipal/forms.html> (accessed December 19, 2011).

<sup>7</sup>Oregon Department of Transportation, Public Transit Division, Pre-Award Audit Questionnaire for New Sub-Recipient. Available at: [http://www.oregon.gov/ODOT/PT/PROGRAMS/SHARED/MGMT\\_PLAN/PreawardProgQs.pdf?ga=t](http://www.oregon.gov/ODOT/PT/PROGRAMS/SHARED/MGMT_PLAN/PreawardProgQs.pdf?ga=t) (accessed December 19, 2011).

## THE OHIO DOT

The Governor of Ohio has designated the Ohio DOT as the agency responsible for administering FTA programs for the state. Section 5501.07 of the Ohio Revised Code designates the Office of Transit within the Ohio DOT to administer all FTA programs for which the state is administratively responsible. The Ohio DOT also administers approximately \$15 million in state funds for public transportation annually. The Office of Transit is led by an administrator and is supported by a staff of 12 full-time employees, one part-time employee, and one consultant.

In a typical fiscal year, the Ohio DOT awards FTA program funds to subrecipients as follows:

- Formula Grants for Non-Urbanized Areas (Section 5311)—35 rural subrecipients
- Transportation for Elderly Persons and Persons with Disabilities (Section 5310)—195 subrecipients

The Ohio DOT also administers funds related to the Job Access and Reverse Commute Program (Section 5316) and the New Freedom Program (Section 5317).

## Source of Financial Audit Requirement

According to the Ohio DOT's state management plans covering Section 5311 and 5310 subrecipients,

[a]ll Section 5311 grantees are required to have an annual audit. Where grantees subcontract, subcontractors are subject to the audit requirements as well. Section 5311 grantees must follow the requirements of the (Federal) Single Audit Act of 1984 and OMB A-133 as applicable.

and

Section 5310 recipients that receive \$500,000 or more annually in federal funds are required to submit an annual A-133 audit to [Ohio DOT]. Recipients are also required to submit operating reports to [Ohio DOT] for as long as they operate the vehicle or until disposition is granted, whichever is earlier.<sup>8</sup>

The Ohio DOT has a number of Section 5311 subrecipients that expend less than \$500,000 in federal

<sup>8</sup>State of Ohio. *Management Plan for Rural (FTA Section 5311) and for Elderly Individuals and Individuals with Disabilities (FTA Section 5310)*, 2008.



funds annually. According to agency policy, all transit subrecipients under the Section 5311 program that received federal funds from the Ohio DOT will have either a desk inspection or a site audit performed.

In 2006, at the request of the Office of Transit, the Division of Finance & Forecasting, Office of Audits created an oversight audit program for the Ohio DOT's Section 5311 rural subrecipients (see Appendix C). According to the program document informally known as the Section 5311 Financial Audit Model,

[t]he audit shall be conducted in accordance with the provisions contained in Federal Regulations and Generally Accepted Government Auditing Standards (GAGAS) and will cover the entire financial operation of the entity. The agreed-upon procedures to be performed may include various combinations of those described in this document. The specific procedures performed for each sub-recipient will be determined based upon an assessment of perceived risks.<sup>9</sup>

### Procedures for Obtaining and Reviewing Subrecipient Financial Audits

The Ohio DOT Office of Transit has conducted compliance reviews of its subrecipients for many years. These reviews have included some cursory oversight of financial processes, including fare collection, budget reports, and basic internal controls. Two isolated cases of management fraud were found to have been perpetrated through the use of credit cards, reimbursement for travel expenses, and other similar schemes. In both cases, the managers were charged with theft and found guilty. As a result of problems found with the compliance reviews and the legal cases, the Office of Transit requested assistance from the Ohio DOT Office of External Audits (OEA) to perform comprehensive financial audits for identified transit systems.

Each year, the Office of Transit completes a risk assessment of each transit system based on its compliance review, noting findings and any ongoing issues with annual budget submissions and quarterly invoice submissions. Subrecipients undergoing external investigations for potential violations receive a high score on the risk assessment. Those transit

systems with the highest perceived risks are referred to the Office of External Audits for a more detailed site audit.

The Ohio DOT Office of External Audits tracks all expenditures of federal funds associated with the Section 5311 program. The Ohio DOT auditor reconciles federal expenditures for each subrecipient to the entity financial reports or other source documentation. For entities not subject to OMB Circular A-133 requirements, the auditor seeks positive confirmation, usually through desk inspection, that federal expenditures have been identified and recorded accurately. A desk inspection employs limited-scope audit procedures that include reconciliation and confirmation of federal funds expended by the transit system, ensuring the subrecipient accurately recorded and classified all federal (and state) funds in its accounting system, and ensuring that ARRA funds are separately identified. Desk inspections are conducted primarily by e-mail and telephone correspondence. If there are major compliance issues, the transit system may be subject to additional oversight by the Ohio DOT through a corrective action plan, compliance audit, or increased monitoring. If the Ohio DOT auditors have financial findings, the Ohio DOT will recover funds.

### Role of State DOT Auditor

The Section 5311 Financial Audit Model outlines the agreed-upon procedures of an audit to be performed by the Office of External Audits. The specific procedures performed for each subrecipient are determined based on risk assessments. The risks are identified based on information gathered from many sources, which may include

- compliance reviews conducted by the Office of Transit,
- site visits,
- audit results, and
- ongoing external investigations.

The timeliness and accuracy of submitted invoices, reports, and other documents and the subrecipients' general responsiveness to Office of Transit staff also are factors in risk assessment.

Once an agency has been selected, the Office of External Audits prepares an agreement letter and submits it to the Office of Transit for signature. On approval by the Office of Transit, the Office of External Audits contacts the agency, schedules a site visit, and

<sup>9</sup>Ohio Department of Transportation, Division of Finance & Forecasting, Office of Audits. Rural Transit—FTA Section 5311 Program, Oversight Audit Program.

prepares an audit engagement letter. Although the scope of the audit will vary depending on the size of the subrecipient and the concerns of the Office of Transit, the audit will generally include

- a review of internal controls over revenue and expenditures;
- a review of financial statements;
- a variance analysis on the general ledger accounts;
- farebox revenue testing;
- contract revenue testing;
- expenditure testing; and
- inventory records and procurement practices.

At the completion of the audit, the Office of External Audits prepares a written report. The report identifies areas of noncompliance and ineligible costs. The Office of External Audits presents the final report to the governing body of the audited agency, after which the Office of Transit has the responsibility of following up with the agency to ensure that the areas of concern are addressed. A corrective action plan (CAP) is developed to assist with tracking completion of outstanding items.

Before FY 2012, the Office of Transit had no dedicated auditor. Subrecipient audits typically were limited to one or two site audits per fiscal year. However, beginning in January 2011 an auditor was dedicated to the Office of Transit and completed a total of 119 desk inspections and one site audit within that fiscal year. Transit audits budgeted for FY 2012 target completion of 120 desk inspections and five site audits.

## THE NEW YORK STATE DOT

The Governor of New York has designated the New York State DOT as the agency responsible for administering state and FTA public transportation programs. The Bureau of Public Transportation within the New York State DOT Division of Policy and Planning is responsible for administering more than \$4 billion in state operating assistance for approximately 130 systems statewide, including the New York Metropolitan Transportation Authority (MTA). The New York State DOT also provides \$37 million in state capital assistance to downstate suburban and upstate public transportation systems. Capital funding for the MTA is addressed through a separate capital program supported through local, state, and federal resources. FTA provides approx-

imately \$1.6 billion annually to New York State through formula and discretionary program funding sources. Of this amount, the New York State DOT typically directly administers \$33 million on behalf of FTA for the following programs:

- Formula Grants for Non-Urbanized Areas (Section 5311)
- Transportation for Elderly Persons and Persons with Disabilities (Section 5310)
- Job Access and Reverse Commute Program (Section 5316)
- New Freedom Program (Section 5317)
- Metropolitan and Statewide Planning (Sections 5303 & 5304)

The Bureau of Public Transportation is led by a director of public transportation and is supported by a staff of 20 full-time employees.

## Sources of Financial Audit Requirement

The New York State DOT's Rules and Regulations, Part 975, Statewide Mass Transportation Operating Assistance Program contains the following information in Section 975.21, Audits:

The Commissioner pursuant to Sections 18b and 14g of the Transportation Law, and any city or county contracting for the provision of mass transportation services pursuant to section 119r of the General Municipal Law has the power to audit and examine the accounts, books, records, documents and papers of any participating public transportation system or person, firm, or corporation. In the event the system, or person, firm, or corporation refuses to comply with the audit provisions, all future operating assistance payments will be withheld to that system or person, firm, or corporation, until the system, or person, or firm or corporation complies with the audit provisions. Furthermore, the Commissioner shall be provided, upon request with copies of audits performed by or in satisfaction of requirements for other levels of government that directly related to the provision of governmental operating aid.<sup>10</sup>

<sup>10</sup> State of New York, Rules and Regulations, Part 975, Statewide Mass Transportation Operating Assistance Program. Available at: <https://www.nysdot.gov/divisions/policy-and-strategy/public-trans-respository/stoarr.pdf> (accessed December 19, 2011).



Additionally, Section 21 of Article 2 of the New York State Transportation Law provides for state single audit coverage of the state transportation assistance expended by municipalities and certain public authorities. The law requires that agencies that receive \$100,000 or more in state transportation assistance must submit a state single audit of transportation funds.

The following links are provided to guide auditors, finance officers, and program personnel in implementation:

- Article 2 Section 21, New York State Transportation Law: From the webpage at <http://public.leginfo.state.ny.us/menuf.cgi> click on “Laws of New York,” then “TRA” (for transportation), “Article 2,” and scroll down to click on “21” for the single audit program.
- Guidance for Auditors (pages may be marked “Draft”): <https://www.nysdot.gov/main/business-center/audit/repository/guidance.pdf>

The 34-page guidance document contains specific detail, such as that one-third of all state transit operating assistance funds should be tested, as well as general information covering topics that include

- audit coverage guidelines and examples;
- matching programs covered under the federal single audit;
- program-specific compliance coverage;
- guidelines for charging eligible audit costs; and
- reporting.

Appendixes to the guidance document contain program-specific compliance testing guidelines.

### Procedures for Obtaining and Reviewing Subrecipient Financial Audits

The Contract Audit Bureau (CAB) of the New York State DOT conducts financial and compliance audits of contractors, subrecipients, and other external parties who participate in Department programs. Audits are performed to assure that contractors and subrecipients are using state and federal funds in compliance with applicable laws, rules, and regulations, and in accordance with the specific contract or grant terms.

Audits are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the United States General Accounting Office (GAO) and with standards promulgated by the American Institute of Certified Public Accountants (AICPA) to determine if reasonable assurances exist that contractors and subrecipients are compensated for goods and services at fair and equitable amounts pursuant to compliance requirements.<sup>11</sup>

CAB audits are conducted based on a risk-assessment process. Factors considered in assessing risk with relation to a subrecipient include

- the presence of material findings in an OMB Circular A-133 single audit report that could adversely impact transportation-related contracts and programs;
- contract dollars (for individual contracts and for the entity as a whole); and
- prior audit experience.

Special requests for audits made by the program area also are accepted and acted upon as appropriate.

The following types of audits apply to subrecipients of the Bureau of Public Transportation:

- Reviews of federal single-audit reports and other limited-scope audit procedures to monitor grantee compliance with OMB Circular A-133 and other federal-aid requirements
- Mass transit audits, consisting of reviews of grantee compliance with provisions of contracts for state projects or for state matching agreements on federal grant projects and state transit operating assistance audits

Appendix C contains examples of monitoring letters and audit closeout letters used by the New York State DOT to inform subrecipients of an audit and document its activities.

### Role of the Internal Auditor

The responsibility for federal single audit monitoring resides within the Contract Audit Bureau

<sup>11</sup> *An Introduction to the New York State Department of Transportation Contract Audit Bureau*. Available at: <https://www.nysdot.gov/main/business-center/audit/repository/cab.pdf> (accessed December 19, 2011).

(CAB). CAB has instituted a process to identify subrecipients expending in excess of the expenditure threshold for federal awards identified in OMB Circular A-133. Subrecipients so identified are notified of their audit obligation under OMB Circular A-133, including the requirement to submit a copy of their federal OMB Circular A-133 Single Audit Report within 9 months after the end of their fiscal year. CAB obtains the subrecipient's federal Single Audit Report and, where applicable findings are identified, CAB issues a management decision. The management decision states whether or not the audit finding is sustained, the reasons for the decision, and any corrective actions expected of the subrecipient (e.g., to repay disallowed costs, make financial adjustments, or take other specific action). A timetable for follow-up is provided for situations in which the subrecipient has not completed corrective actions.

The management decision is issued within 6 months after receipt of the subrecipient's audit report. CAB may perform a limited-scope audit to verify that corrective action has taken place. A timetable for follow-up is provided in the management decision to cover situations in which the subrecipient has not completed corrective actions.

If adequate corrective action has not taken place or if the subrecipient fails to submit an audit report in accordance with OMB Circular A-133, CAB notifies the Accounting Bureau to suspend payment on future reimbursement claims submitted by the subrecipient until notified otherwise.

## THE MICHIGAN DOT

Although it was not the subject of a full case study, the Michigan DOT's use of a comprehensive, state-published audit guide can be considered a best practice. In Michigan, audits are reviewed for compliance with the state's published *Audit Guide for Transportation Authorities*. If an annual audit cites an OMB Circular A-133 transit audit finding associated with funds in which the state is the pass-through entity, that audit finding is identified, tracked, and resolved in accordance with an internal operating instruction (e.g., IDI 70206 "Identification, Review and Follow up of Audit Findings") that meets the mandates of OMB Circular A-133. If ineligible expenditures are identified that are not properly subtracted out as ineligible, the proper subtraction is made and the transit agency is notified of it.

Audits required under Michigan state law are used to reconcile eligible expenses, which are used to determine state operating assistance. The Michigan DOT's transit subrecipients are notified of any areas of noncompliance with the state audit requirements and asked to correct them.

The topics covered in the Michigan DOT's *Audit Guide for Transportation Authorities* are listed in Appendix C. An online copy of the complete audit guidance can be found at the following webpage: [http://www.michigan.gov/documents/treasury/Audit\\_Guide\\_202115\\_7.pdf](http://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf).

**APPENDIX A. SURVEY RESPONDENTS LIST**

<b>State</b>	<b>Contact</b>	<b>State</b>	<b>Contact</b>
AK	Eric Taylor	MT	Doug McBroom
AL	Joecephus Nix	NC	Miriam Perry
AR	James Newcomb	ND	Denny Johnson
AZ	Sam Chavez	NE	Ellis Tompkins
CA	Kim Gayle	NH	Shelly Winters
CO	Matthew Paswaters	NJ	Robert Koska
CT	Mark Hayes	NM	David Harris
DC	Gabe Klein	NV	Michelle Gardner
FL	Elizabeth Stutts	NY	Ron Epstein
GA	Steve Kish	OH	Marianne Freed
HI	Ryan Fujii	OK	Ken LaRue
ID	Randy Kyrias	OR	Robin Bjurstrom
IL	David Spacek	PA	John Dockendorf
IN	Larry Buckel	SD	Bruce Lindholm
KY	Vickie Bourne, Eric Perez	TN	Sherri Carroll
LA	Donna LaVigne	TX	Eric Gleason
MA	Jeffrey Mullan	UT	Leone Gibson
MD	Beth Kreider	VA	Donald Karabaich
ME	Susan Moreau	VM	Krista Chadwick
MI	Sharon Edgar	WI	John Alley
MN	Mike Schadauer	WS	Katy Taylor
MO	Steve Billings	WV	Susan O'Connell
MS	Charles Carr	WY	Rich Douglass

## APPENDIX B. SURVEY

### 1. INTRODUCTION

This research is being conducted by Maxine Marshall and John Potts of The DMP Group, under contract with the National Cooperative Research Program (NCHRP) of the Transportation Research Board (TRB).

We thank you for your time and ask you to complete this survey promptly or forward it to the appropriate person on your staff responsible for conducting or monitoring subrecipient financial audits.

### BACKGROUND

State Departments of Transportation (DOTs) invest a significant amount of money to support local public transportation in both urban and rural communities. At a time when most states are financially constrained, it is becoming more important for the public transportation units of the state DOTs to demonstrate that every effort is being made to monitor the expenditure of state and federal funds and to assure that the funds are being used for their intended purpose and in compliance with state and federal regulations.

State DOTs differ significantly in the distribution and sources of state funding for public transportation and in the approaches used to monitor the use of the funds. While all states must pass through the federal requirement that a Single Audit, as described in the Office of Management and Budget (OMB) Circular A-133, be conducted of any agency that expends \$500,000 or more in federal funds in a given year, FTA does not have a specific requirement for subrecipients that receive less than \$500,000 per year. In these cases, the state DOTs follow their own procedures for assuring that FTA and state funds are accounted for properly. Many states do require subrecipients to conduct financial audits to assure that the transit funding provided by the state is appropriately used for the intended purpose(s).

The objective of this study is to identify current practices used by states regarding the submission and review of financial audits, whether it is the A-133 audit or a separate financial audit required by the state. The results of the research will include a detailed description of practices and procedures that may be applicable to other states.

### 2. TRANSIT SUBRECIPIENT AUDIT REQUIREMENTS

1. Please provide the following contact information for the person completing the survey.

Your Name:

Agency:

Address:

Address 2:

City/Town:

State:

ZIP:

Your Position:

Your Email Address:

Phone Number:

2. Which FTA program funds does your state administer?

- Planning (5303, 5304 and/or 5305)
- Urbanized Area Formula Program (5307)
- Transit Capital Investment (5309)
- Transportation for Elderly and Persons with Disabilities (5310)
- Formula Grants for Other than Urbanized Areas (5311)
- Job Access and Reverse Commute (5316)
- New Freedom (5317)

3. Please identify ALL types of public transit assistance programs for which your state provides funding (applies to state funds only).

- Capital
- Operating
- Persons with Disabilities
- Elderly
- Planning
- Large Urban (>200,000 population)
- Small Urban (50,000–200,000 population)
- Rural (<50,000 population)

4. How much state funding was used for public transportation programs in FY 2009?

5. How many persons are currently employed in the public transportation section of your state DOT?

- Full-time
- Part-time
- Consultants (full or part-time)

6. Does your state have an internal audit function for DOT, including public transportation programs?

- Yes
- No

If your answer was YES, to whom (what position) does this person report?

7. Does your state require ALL subrecipients to have an independent financial audit conducted annually?

- Yes
- No

If your answer was NO, please identify which type of subrecipient is exempt from auditing requirements.

8. Does your state require ALL subrecipients (including those that expend less than \$500,000 per year in federal funds) to have annual Single Audits conducted in accordance with OMB Circular A-133?

- Yes
- No

If your answer was NO, please specify



9. Does your state have financial audit requirements for subrecipients other than A-133?

- Yes
- No

If your answer was YES, what is the source of the requirement (e.g., state statute or procedure)?

10. Does your state use contractors to conduct the subrecipients financial audit? (applies to A-133 and other financial audits)

- Yes, for A-133 Audit
- Yes, for other financial audits
- No, we don't use contractors to conduct financial audits

If your answer was YES, please explain

11. Is your state involved in the selection or approval of the CPA firms used by subrecipients?

- Yes
- No

12. Does your state pay for all or a portion of the subrecipients' financial audit? (applies to A-133 and other financial audits)

- Yes
- No

If your answer was YES, please describe (e.g., do you allow it as an eligible expense?)

### 3. STATE AUDITING PROCEDURES & REVIEW

1. What other role(s) does your state play in subrecipient financial audits (e.g., attend/observe audit meetings)?

2. Does your state require ALL subrecipients to submit the complete audit report to your state? (applies to A-133 and other financial audits)

- Yes
- No

If your answer was NO, please specify

3. What is the deadline for submission of the annual audit to your state? (applies to A-133 and other financial audits)

- Within 30 days of the receipt of the audit report by the subrecipient
- Within nine months of the end of the subrecipients fiscal year
- Within 120 days following the close of the subrecipients fiscal year
- Other

If your answer was OTHER, please specify

4. Are there consequences for late submission of the subrecipients' financial audits? (applies to A-133 and other financial audits)

Yes

No

If your answer was YES, please describe

5. Is the financial audit used to verify that specific program requirements are being met, e.g. subrecipient eligibility, cost allocation among programs, drug & alcohol testing, ADA? (applies to A-133 and other financial audits)

Yes

No

If your answer was YES, please describe

6. What is your state's process for reviewing the audits? What happens if areas of concern, e.g. ineligible expenditures were found, are identified? (applies to A-133 and other financial audits)

7. What follow-up action does your state perform for ALL subrecipient financial audits? (applies to A-133 and other financial audits)

8. Does your state have any audit manuals/guidelines that CPA firms must follow? (applies to A-133 and other financial audits)

#### 4. ADDITIONAL COMMENTS

1. Please add any experience you have had with state financial audit requirements that you were not asked about and feel other states might benefit.

2. If you have any current state audit procedures that you feel could be considered a "best practice", please send your electronic file to [NCHRP-DOTAuditStudy@thedmpgroup.com](mailto:NCHRP-DOTAuditStudy@thedmpgroup.com)

I will send an electronic file of our "best practice"

I will not send a file at this time but feel we could benefit from other states' procedures

Thank you so much for participating in this NCHRP project on State Financial Auditing Requirements for their Public Transportation Assistance Programs. We recognize that you are very busy and we appreciate the time you devoted to this effort. We hope that the results will benefit you in the future.

Maxine Marshall and John Potts  
The DMP Group

## APPENDIX C. SAMPLE AUDIT DOCUMENTS FROM CASE STUDIES

**OHIO DEPARTMENT OF TRANSPORTATION  
DIVISION OF FINANCE & FORECASTING  
OFFICE OF AUDITS  
RURAL TRANSIT – FTA SECTION 5311 PROGRAM  
OVERSIGHT AUDIT PROGRAM**

The audit shall be conducted in accordance with the provisions contained in Federal Regulations and Generally Accepted Government Auditing Standards (GAGAS) and will cover the entire financial operation of the entity. The agreed upon procedures to be performed may include various combinations of those described in this document. The specific procedures performed for each sub-recipient will be determined based upon an assessment of perceived risks.

**Audit Preparation Includes:**

- Review the sub-recipient's financial statements.
- Review the previous program billings and correspondence.
- Determine the necessary level of on-site documentation review and what (if any) personal observations will be necessary.

**To Determine Adequacy and Reliability of the Sub-Recipient's General Internal Controls:**

- Review the sub-recipient's budget preparation process.
- Determine if a system is in place to compare actual to budget to prior years' expenditures and significant variances are reported to upper management.
- Determine if the responsibility for reviewing and approving financial reports is segregated from the responsibility for their preparation.
- Determine if there is a system in place to monitor the progress of large or lengthy contractual agreements and to limit payments made to vendors for work performed where appropriate.
- Review cash receipt and disbursement processes for proper segregation of duties.
- Review revenue and expenditure processes for accuracy.
- Review the sub-recipient's invoices/requests for payments to determine if they were properly authorized and documented.
- Determine if the authority for sub-recipient purchases was restricted to authorized employees, initiated by purchase orders and coded to the proper accounts.
- Review the monitoring process and verify that actual performance is compared with budgeted and identify corrective actions taken by management.
- Review the sub-recipient's communication process - what financial reports are prepared (identify and evaluate frequency and distribution).

#### To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Personnel:

- Review sub-recipient's explanation of the payroll process. - The procedure should begin with the tracking of the individual's time and end with that individual's paycheck.
- Review time sheets, or their equivalent, which record each federally funded individual's time and activity (including, but not limited to program managers, web administrators and clerical support).
- Review job cost sheets which summarize payroll costs by activity.
- Obtain and review each federally funded individual's compensation, qualifications, responsibilities and time spent on Federal projects.
- Obtain and review each federally funded consultant's compensation, qualifications, responsibilities and time spent on Federal projects.

#### To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Program Revenue:

- Identify the sources of the contract revenue by reviewing the sub-recipient's contracts.
- Compare the contractually obligated amounts with revenues reported to ensure all revenue billed is accurate, complies with the contract, and has been received.
- Sample fare-box revenue through the process - from the dispatcher's log, driver's log, receipting process and recording and depositing process.

#### To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Cash Flow:

- Summarize the sub-recipient's cash receipts and disbursements to determine the adequacy of the sub-recipient's cash flow. Is the sub-recipient utilizing short term loans to cover expenses?

#### To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Physical Inventory:

- Review the sub-recipient's inventory controls.
- Conduct a spot check of sub-recipient's inventory or equipment purchased with Rural Transit Funds.
- Document vehicle miles.
- Identify the last time the physical inventory was updated.
- Verify that vehicle usage is in compliance with program guidelines.
- Identify the sub-recipient's procedure for adding/deleting inventory.
- Check for the existence and use of a preventive maintenance schedule.
- Identify the person responsible for maintaining the inventory.

#### To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Petty Cash:

- Review sub-recipient's executive committee/ board minutes to ensure proper authorization and amount.
- Verify that cash and receipts equal the amount authorized.
- Test expenditures for compliance with federal guidelines.

To Determine Adequacy and Reliability of the Sub-Recipient's Internal Controls over Agency Credit Cards:

- Determine whether there are any agency credit cards. If so, verify from the minutes that they are authorized and for what use.
- Select transactions to test for compliance with agency, state and federal guidelines.
- Review the sub-recipient's assignment and physical control of the cards.

To Determine Adequacy and Reliability of the Sub-Recipient's General Program Compliance:

- Determine if compliant with 49 CFR Part 18, *Uniform Administrative Requirements for Grants and Agreements with States and Local Governments*.
- Compare actual sub-recipient activities with those contractually obligated.
- Test sub-recipient's compliance with federal regulations by reviewing large and/or unusual transactions.
- Determine if costs claimed were allowable, allocable, reasonable and necessary to the program in accordance with 2 CFR Part 225 [OMB Circular A-87], *Cost Principles for State, Local and Indian Tribal Governments* and program specific regulations. (Note: applicable OMB Circular may differ if entity is not a local government.)
- Determine if costs claimed were treated consistently and if net of all applicable credits

To Determine Adequacy and Reliability of the Sub-Recipient's Cost Accounting System:

- Obtain and review a complete description of the sub-recipient's cost tracking system.
- Determine if compliant with 49 CFR Part 18, §18.20 *Standards for financial management systems*.
- Obtain and review sub-recipient's copies of the current and prior years' detailed budget (including direct labor, materials and equipment, consultant cost and overhead).
- Obtain and review sub-recipient's explanation of how expenses are reported by activity and access to the accounts payable file.
- Review detail general ledgers which support current and prior years' expenditures
- Test for accuracy by tracing selected detailed ledger accounts through the general ledger to the published financial statements.
- Test for proper coding by reviewing the vendors and amounts that support selected general ledger accounts.
- Determine if sub-recipient's cost representations are financially and legally proper.
- Determine if a process is in place which segregates costs as either allowable or unallowable.
- Determine if individual transactions were properly classified and accumulated.
- Determine if activities are charged correctly- as either direct or indirect and if there is a cost allocation plan it is properly and accurately calculated.
- Obtain and review sub-recipient's revenue recording process and explanation how federal funds and administrative fees are applied to Federal programs.



To Determine Adequacy and Reliability of the Sub-Recipient's Cost Allocation Plan:

- Determine if compliant with 2 CFR Part 225, *Cost Principles for State, Local and Indian Tribal Governments*.
- Obtain and review explanation of the sub-recipient's cost allocation plan including identification of direct and indirect costs - to include method for excluding costs which are unallowable for Federal reimbursement.
- Review copies of the current year's cost allocation plan in relation to the budgeted amount. (This is to include entity's assignment of consultant fees, insurance and rent expense.)
- Verify the relationship between the sub-recipient's actual financial performance and that projected in the cost allocation plan.
- Test direct and indirect costs for consistent treatment.
- Verify in-kind /local contributions and donated services.
- Sample in-kind/local non-cash expenses and associated revenues.
- Verify the proper application of the sub-recipient's overhead rate.

To Determine Adequacy and Reliability of the Sub-Recipient's Financial Reporting:

- Determine whether the financial statements of the entity are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles.
- Review the current and prior year audit reports - to include financial statements, management letters (including corrective action, if any), opinions, and findings.
- Review the most recent audit report for comments and/or findings and any appropriate corrective action.
- Determine if compliant with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

## Oregon Department of Transportation Public Transit Division

### PRE-AWARD AUDIT QUESTIONNAIRE FOR NEW SUB-RECIPIENT

Page 1 of 3

Preaward program questionnaire July.doc

OMB Circular A-133 requires monitoring of sub-recipients receiving Federal financial assistance to carry out a program under prime awards to the Oregon Department of Transportation Public Transit Division (PTD).

Your organization is new to the PTD grant program. The purpose of this questionnaire is to help us assess your agency's ability to comply with the requirements which follow Federal assistance funds.

Name of Agency \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ Zip \_\_\_\_\_

Contact \_\_\_\_\_

Phone \_\_\_\_\_ Email \_\_\_\_\_ Website \_\_\_\_\_

### THRESHOLD QUESTIONS

1. Does your organization have a cognizant Federal agency for A-133 purposes?

Yes No If yes, please indicate the cognizant agency.

### GENERAL INFORMATION

2. Does your organization have its financial statements reviewed by an independent public accounting firm? Yes No

If so, please enclose a copy of your most recent audited financial report with your response.

3. What was the dollar volume of Federal awards from all federal sources to your organization during the last fiscal year? \_\_\_\_\_

4. Are duties separated so that no one individual has complete authority over an entire financial transaction? Yes No

5. Does your organization have controls to prevent expenditure of funds in excess of approved, budgeted amounts? Yes No

6. Other than financial statements, has any aspect of your organization's activities been audited within the last two years by a governmental agency or independent public accountant? Yes No

If yes, please explain.

Oregon Department of Transportation Public Transit Division  
PRE-AWARD AUDIT QUESTIONNAIRE FOR NEW SUB-RECIPIENT

Page 2 of 3

Preaward program questionnaire July.doc

**CASH MANAGEMENT**

7. Are Federal funds deposited in a separate bank account or accounted for through grant-loan fund control accounts? Yes No
8. Are all disbursements properly documented with evidence of receipt of goods or performance of services? Yes No
9. Are all bank accounts reconciled monthly? Yes No

**COST TRANSFERS**

10. How does the organization ensure that all cost transfers are legitimate and appropriate?

**INDIRECT COSTS**

11. Does the organization have an indirect cost allocation plan or a negotiated indirect cost rate approved by the cognizant agency? Yes No  
Explain.
12. Does the organization have procedures which provide assurance that consistent treatment is applied in the distribution of charges to all grants? Yes No

**COST SHARING**

13. How does the organization determine that it has met cost-sharing goals?

**COMPLIANCE**

14. Does your organization engage in any lobbying or partisan political activity which is charged, directly or indirectly, to a federally-assisted program?  
Yes No
15. Does your organization have a formal policy of nondiscrimination and a formal system for complying with Federal civil rights requirements? Yes No
16. For the period of the past three fiscal years and to date, has your agency had any civil rights compliance reviews?  
Yes No

Oregon Department of Transportation Public Transit Division  
PRE-AWARD AUDIT QUESTIONNAIRE FOR NEW SUB-RECIPIENT  
Page 3 of 3  
Preaward program questionnaire July.doc

If YES, attach a description of the issue, including: explain why the review was performed, the date of the review, who performed the review, the findings and recommendations of the review and the status or disposition of the findings.

17. For the period of the past three fiscal years and to date, has your agency received any written complaints or lawsuits alleging civil rights violations?

Yes No

If YES, attach a description of the issue, including: the date of the complaint, a summary of the allegation, and a report of the status or disposition of the complaint or lawsuit, including whether the parties entered into a consent decree or mediation.

**PROCUREMENT**

18. Does your agency maintain records of all procurements greater than \$5000, including copies of bid/proposal specifications, bid/proposal selection and award procedures, sole-source justification, contract and contract amendments, payments, contract management and closeout procures?

Yes No If NO, Explain:

19. Does your agency maintain an inventory of all capital equipment with an original purchase value greater than \$5000 and purchased with state and/or federal funds?

Yes No If NO, Explain:

20. Does your agency conduct all procurements in a manner providing full and open competition?

Yes No If NO, Explain:

---

Name and title of person completing questionnaire:

---

Signature

Date \_\_\_\_\_



JOAN McDONALD  
COMMISSIONER

ANDREW M. CUOMO  
GOVERNOR

June 16, 2011

Dear Chief Financial Officer:

Our records indicate that the New York State Department of Transportation (NYSDOT) has provided more than \$500,000 of Federal-aid funds to your organization in calendar year 2010. If your records indicate you expended less than \$500,000 and are not required to complete a Federal Single Audit please contact us. Federal-aid funding provided through NYSDOT is subject to Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. OMB Circular A-133 requires NYSDOT to monitor sub-recipients of Federal funds to determine whether they have met the audit requirements of the Circular, and whether they are in compliance with Federal laws and regulations.

Based on your fiscal year end of December 31, 2010, your Federal Single Audit (FSA) report should be filed with the Federal Audit Clearinghouse (FAC) website by September 30, 2010. If you cannot meet the deadline for submitting your FSA report, please be advised extensions are no longer being issued by cognizant agencies. If you fail to meet the required deadline, we will implement sanctions suspending federal reimbursement payments on future claims until the report is received. In addition, failure to file your FSA report on time will preclude you from qualifying as a "low-risk" auditee for the next two subsequent years in which you are required to submit a FSA report. (OMB Memorandum M-10-14)

Do not submit the audit report to NYSDOT if the schedule of findings and questioned costs did not disclose audit findings relating directly or indirectly to the Federal awards that passed through NYSDOT, and the summary schedule of prior audit findings did not report on the status of audit findings relating to Federal funds passed through NYSDOT.

If you are not required to send the audit report, please send an email to the address below containing the date the report was filed with the Federal Audit Clearinghouse, and a statement that you had no audit findings (as described above) related to Federal awards passed through NYSDOT.

Please also note, if you received more than \$100,000 of NYSDOT funds, we remind you a State Single Audit of Transportation funds is due at the same time. Information about the State Single Audit can be found at our website: <https://www.nysdot.gov/main/business-center/audit/local-project-audits>

The audit report may be submitted electronically (preferred), or in hard copy. If you prefer to provide us with written documentation, please address all correspondence to:

NYS DOT/Contract Audit  
FSA Coordinator  
50 Wolf Road, 1CA  
Albany, NY 12232

Your prompt attention to this matter is greatly appreciated. If you have any questions or need additional information, please contact me at (518) 457-2069 or by email.

Please send all electronic correspondence to [dot.sm.mo.fsa.coordinator@dot.state.ny.us](mailto:dot.sm.mo.fsa.coordinator@dot.state.ny.us)

Sincerely,

Michael Bush, Senior Auditor  
Contract Audit Bureau



**NEW YORK STATE  
DEPARTMENT OF TRANSPORTATION**

**NASSAU COUNTY**

**ASSIGNMENT NUMBER: 08-05-0001**

**CONTRACT NUMBER: K006468**

**PIN: 0822.60.001**

**PROJECT DESCRIPTION: Federal Transit Capital and Operating  
Assistance Formula**

Distribution: T. Vaughan, Passenger Transportation Bureau, POD 54  
M. Fazioli, Accounting Bureau, POD 52 (2 copies)  
P. Bourne, Nassau County Planning Commission, 400 County  
Seat Drive, Mineola, LI NY 11501-4825

We have reviewed the audit request on the referenced agreement.

We have reviewed the Federal Single Audit report (FSA) to ensure the auditee had adequate internal controls during the agreement period and determined that sufficient audit coverage was provided for the specific program. The FSA for fiscal year ended 12/31/1997 was prepared by KPMG, 1305 Walt Whitman Road, Suite 200, Melville, NY 11747-4302 and Deloitte & Touche LLP, Two World Financial Center, New York, NY 10281-1414.

Based on the auditor's report, and acceptance of work by the Department, we recommend that the amount of \$4,100,000.00 be processed for payment as the total allowable state share of the project costs.

No compliance or control findings were noted in the auditor's report.

Contract No: K006468  
Recommended: \$4,100,000  
Pin: 0822.60.001

**Accepted and Approved by:**

Linda C.  
Zinzow,  
CPA, CGFM

Digitally signed by Linda C.  
Zinzow, CPA, CGFM  
DN: CN = Linda C. Zinzow,  
CPA, CGFM, C = US  
Date: 2009.03.25 10:08:07  
-04'00'

Linda C. Zinzow, CPA, CGFM  
Director, Contract Audit Bureau

March 25, 2009

Date

## Michigan DOT Audit Manual

### AUDIT GUIDE FOR TRANSPORTATION AUTHORITIES AND AGENCIES IN MICHIGAN

Topics covered in the Audit Guide include the following:

- Introduction and auditor's responsibility
- Authority for audit
- Performing the audit
- Audit program and objectives
- Scope and extent of testing
- State operating programs
- Federal capital and operating programs
- Contract payments and the public transportation management system (PTMS)
- Audit due dates
- Single Audit Act due date
- Distribution of audit report
- State and federal resources
- Local public transit revenue and expense manual (R&E Manual)
- Non-financial information
- Financial information
- Examples of transit notes to the financial statements
- Bureau of Passenger Transportation (BPT) schedules, detailed in appendixes organized by year-end target dates and covering
  - Local revenues
  - Expenditures of federal and state awards
  - Federal and state awards (operating revenue only)
  - Operating and contract expenses
  - Operating expenses by program
  - OAR schedules (urban and nonurban, regular service revenue and expense reports)
  - OAR schedules (urban and nonurban, regular service non-financial reports)
  - OAR schedules (other operating programs, e.g., JARC service revenue reports)
  - Operating assistance calculation
  - Comments and recommendations

This list of topics is based on the *Audit Guide for Transportation Authorities and Agencies in Michigan* (revised July 2007), available at:

[http://www.michigan.gov/documents/treasury/Audit\\_Guide\\_202115\\_7.pdf](http://www.michigan.gov/documents/treasury/Audit_Guide_202115_7.pdf) (accessed August 25, 2011).



**Transportation Research Board**

500 Fifth Street, NW  
Washington, DC 20001

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