

**Tennessee Department of Transportation
Division of Multimodal Transportation Resources**

**Office of Public Transportation
Grantee Handbook**

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Introduction

This handbook is an operational and informational tool for grantees of transit assistance programs of the State of Tennessee. Its purpose is a topical guide on operational program issues. The intent is not to be comprehensive in nature at its initiation. The ultimate goal is to incorporate topics based on need to move toward a comprehensive framework of transit operation information. The order of sections and information will change over time as topics are added and revised in order to group in a logical format.

Grantee or Subrecipient?

A Grantee is an entity that receives funds from the Tennessee Department of Transportation (TDOT) through a grant contract, which includes state and/or federal funds or property.

The term Subrecipient is officially defined in the Federal Office of Management and Budget (OMB), 2 Code of Federal Regulations (CFR) Chapter I, and Chapter II, Parts 200, also known as the “Super Circular”. Chapter II, Part 200, Subpart A. Section 200.93 defines a Subrecipient as a non-Federal entity that receives a subaward from a pass-through entity, such as the state of Tennessee, to carry out part of a Federal program. It distinguishes a Subrecipient receiving a subaward to carry out program activities from a contractor that receives a contract, from a recipient or Subrecipient to purchase property or services. What can be confusing is that a legal document called a “contract” can be used by a pass through entity as the legal agreement to provide the subaward to a Subrecipient.

For contracts that contain federal funds, TDOT refers to the agency receiving the award as the Subrecipient or grantee. For contracts that contain state funds only, TDOT refers to the agency receiving the award as the grantee. In this document, Subrecipients may also be referred to as Grantees.

Why a Grantee Handbook?

Division of Multimodal Transportation Resources (DMTR) is providing this handbook to assist DMTR’s grantees in achieving and maintaining an eligible and compliant status to receive federal and state funding to provide for public transportation projects.

Chapter 1. Eligible Grantee Status

Achieving and maintaining an eligible grantee status is required to receive funding from federal awards and state funds. This chapter includes topics on general eligibility compliance. DMTR or the grantee will need to maintain copies of grantee status documents as a compliance control. DMTR can request copies of all documents from grantees.

1.1 Tennessee Revenue Registration

As a prerequisite to receiving a contract with the state of Tennessee, an entity must complete a Tennessee sales tax registration. Information regarding the registration can be found at the website, <https://apps.tn.gov/bizreg/>, and most organizations should be able to complete the online registration found there. Upon completion of revenue registration, the Tennessee Department of Revenue will send out a confirmation notice of Tennessee revenue registration. Return a copy of this notice to DMTR.

- | | |
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| Action | 1. Complete Tennessee revenue registration. (https://apps.tn.gov/bizreg/) |
| Steps: | 2. Send copy of Tennessee Department of Revenue confirmation of registration to DMTR. |

1.2 SAMs Registration

The System for Award Management, or SAM, is the Federal government's system to register any organization who wishes to participate in federal sources of funding to provide services for federally sponsored programs. SAM.gov is the website where the registration and maintenance of your registration is completed. The free registration also facilitates the issuance of a Dun & Bradstreet number (DUNS), which is required. The organization's official name is maintained within the system so carefully enter this and other information. The registration is active for a one year period and requires renewals annually.

The federal government also maintains a status of good standing or debarred and suspended within the system which must be considered when awarding federal funds for projects.

SAM and DUNS registration will be required with program application submissions.

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| Action | 1. Complete SAM.gov registration at |
| Steps: | https://www.uscontractorregistration.com/ . Take care in entering the organization's official information accurately. |
| | 2. Confirm existence of DUNS number. |
| | 3. Confirm expiration date of SAM registration. |
| | 4. Send copy of screen print of SAM.gov site to DMTR to demonstrate active and "in good standing" registration status. Copies will be requested with program application submissions. |
| | 5. Send copy of screen prints to DMTR with each annual renewal. |

1.3 Procedures for Determining Allowable Costs

Grantees need to have a good understanding of allowable costs in order to confirm that costs, both direct and indirect, submitted for fund reimbursement are in compliance. In general, the following criteria apply in evaluating allowability of costs. To be allowable, costs must

- Be necessary and reasonable for performance of the project. When considering reasonableness of a cost in its nature and amount, thought must be given to,
 - It does not exceed what a prudent person would do under the circumstances at the time of the decision to incur the cost,
 - It is a type of cost generally recognized as ordinary and necessary or proper and efficient for the performance of the award,
 - Restraints and requirements imposed by factors such as sound business practices, arm's-length bargaining, federal, state and other laws and regulations, and terms and conditions of the federal award,
 - Market prices of comparable goods or services,
 - Acting responsibly and with prudence in the circumstances considering responsibilities toward your organization, employees, the public at large, and the Federal and State government,
 - Deviating from your organization's established practices and policies regarding the incurrence of costs and if they unjustifiably increase the Federal or State award's cost.
- Be consistent with policies and procedures that apply uniformly to federally financed and other activities of the grantee,
- Be accorded consistent treatment, such as costs of same purpose and in like circumstances, cannot be treated as both direct and indirect costs,
- Be determined in accordance with generally accepted accounting principles,
- Used as a cost in no more than one project under one program,
- Be adequately documented.

The determination and assignment of the type of cost in comparison to the Super Circular's "short list" of allowable costs must be evaluated by the grantee in planning program expenses. An internal control or practice should be established in matching an assignment of cost type to the transaction source documentation. The Super Circular states that a cost type is not necessarily unallowable just because it is not in the "short list". A good practice in the determination of allowability of costs is a pre-determination of the allowability prior to incurring the expense.

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| Action Step: | 1. Review documentation to gain a good understanding of determining the allowability or unallowability of costs to be included in direct or indirect costs for reimbursement. |
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Chapter 2. Programs

The Multimodal Division serves as the Direct Recipient for several FTA grant programs and has the responsibility for the administration, management, and compliance monitoring of subrecipient grantee awards. Multimodal also provides state-match only grants to urban transportation agencies serving as the Direct Recipient of federal transit program funds. Multimodal oversight requirements and responsibilities for subrecipients and grantees vary based on the program's Direct Recipient.

2.1 FTA Section 5303

Metropolitan Transportation Planning Program

Circular: FTA C 8100.1C

Direct Recipient: TDOT Multimodal

2.1.1 Program Purpose

This program provides annual funding and procedural requirements for multimodal transportation planning in metropolitan areas and states that is cooperative, continuous, and comprehensive, resulting in long-range plans and short-range programs of transportation investment priorities. The planning programs are jointly administered by FTA and the Federal Highway Administration (FHWA), which provides additional funding.

2.1.2 Eligible Applicants

Metropolitan Planning Organizations (MPOs)

2.1.3 Eligible Activities

Development of transportation plans and programs; conducting technical studies related to public transportation

2.1.4 Project Selection

Annual program funds are apportioned by formula to the State. TDOT Multimodal allocates the funds by formula to MPOs based on the urbanized area's population from the 2010 US Census.

2.1.5 Match Requirements

TDOT is a pass through entity of federal funds.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with grantees to receive federal and state funds.

Planning - 80% Federal, 10% State, 10% Local

2.1.6 Program Requirements

Develop transportation plans and transportation improvement programs through a performance-driven, outcome-based approach to planning. These documents include the Unified Planning Work Program (UPWP), Metropolitan Transportation Plans, Transportation Improvement Program (TIP), Public Participation Plan (PPP), and a Congestion Management Plan (CMP).

The planning process must be in coordination with the state and with public transportation in establishing and including performance targets that address performance measures and standards for public transportation, asset management, and transit safety.

The TIP must include a description of the impact implementation of the program will have on achieving the established performance targets.

2.2 FTA Section 5307

Formula Grants for Urbanized Areas

Circular: FTA C 9030.1E

Direct Recipient

- Public transportation agencies serving urbanized areas greater than 200,000 in population as determined by the 2010 US Census. For large urban areas served by multiple public transportation providers, the designated direct recipient determines the allocation of funds.
- TDOT Multimodal for urbanized areas less than 200,000 in population as determined by the 2010 US Census.
 - Each designated recipient is to receive federal funds directly as allocated by TDOT Multimodal.

2.2.1 Program Purpose

This program provides annual funding to urbanized areas to assist in public transportation administration, planning, capital, and operating activities.

2.2.2 Eligible Applicants

Public transportation agencies providing general public transportation service in urbanized areas greater than 200,000 in population are eligible for state matching funds only. General public transportation service includes demand response service.

Public transportation agencies providing general public transportation service in urbanized areas less than 200,000 in population are eligible for state and federal program funds.

2.2.3 Eligible Activities

TDOT Multimodal restricts state matching funds for capital program activities only. This includes administration, asset investments, preventative maintenance, and planning. Operating activities are

NOT eligible for state match under the 5307 program.

2.2.4 Project Selection

TDOT Multimodal provides state match to direct recipients of federal 5307 program funds for capital activities only.

Annual program funds are apportioned by formula to the State. Multimodal allocates funds apportioned to urbanized areas less than 200,000 in population by formula based on population, general public ridership, and general public revenue miles.

2.2.5 Match Requirements

TDOT is not a pass through entity of federal funds.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with grantees to receive state funds.

Capital - 80% Federal, 10% State, 10% Local

ADA Capital – 85% Federal, 7.5% State, 7.5% Local

Operating – Not Matched

2.2.6 Program Requirements

Program activities must adhere to all state and federal rules and requirements as detailed in the federal program circular as well as meet all grant administration and procurement guidelines.

For urbanized areas less than 200,000 in population, TDOT Multimodal has established deadlines for obligating program funds. Annual funds not obligated by the deadline will be reallocated at the discretion of the Commissioner unless compelling circumstances warrant an exception. Obligation deadlines are available in the most recent Program Allocation Letter and upon request.

2.3 FTA Section 5310

Enhanced Mobility of Seniors & Individuals with Disabilities (EMSID)

Circular: FTA C 9070.1G

Direct Recipient:

- Public transportation agencies designated as direct recipient in urbanized areas greater than 200,000 in population as determined by the 2010 US Census.
- TDOT Multimodal for urbanized areas less than 200,000 in population as determined by the 2010 US Census.

2.3.1 Program Purpose

This program improves the mobility of seniors and individuals with disabilities throughout the State by removing barriers to transportation services and expanding transportation mobility options

2.3.2 Eligible Applicants

Rural and small urban public agencies providing general public transportation that currently receive Section 5307 or 5311 program funds.

Private non-profit organizations located in small urban areas with less than 200,000 in population based on the 2010 Census and in rural areas.

NOTE: Agencies and organizations located in large urban areas with greater than 200,000 in population based on the 2010 Census are NOT eligible to apply through TDOT. This applies to agencies located in the Memphis, Nashville, Chattanooga, and Knoxville urbanized areas.

Eligibility is based on the physical address of the project location. For example, a request for a vehicle is based on the location where the project award will be used and garaged, not the address of the applying agency's administration office.

2.3.3 Eligible Projects

Capital projects consist of replacement vehicles and expansion vehicles. Project requests are limited to a predetermined vehicle menu. Applicants are required to prioritize vehicle requests.

Projects in small urbanized areas must be identified in the Transportation Improvement Plan (TIP).

2.3.4 Project Selection

Process is competitive and based on need. Review of agency's application material and responses, financial management and capacity, current award utilization and compliance history, fleet size, age, and other service performance data will assist in selecting project awards.

MPOs and RPOs will assist in the review process by providing information and comments on project application requests in the specific planning organization's area.

NOTE: All vehicle awards are purchased by TDOT from the Statewide Contract through the Tennessee Department of General Services, Division of Purchasing. At time of contract execution, awardees are required to provide the local match to TDOT.

During the selection review process, applicants may be required to provide additional agency and/or project information. TDOT retains sole discretion to determine which projects will be funded.

2.3.5 Match Requirements

TDOT is a pass through entity of federal funds for small urban and rural grantees. TDOT is not a pass through entity of federal funds for large urban grantees.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with small urban and rural grantees to receive federal, state (if available in state budget), and local funds to purchase selected vehicles for 5310 service. Contracts are established with large urban grantees for state match funds if available in the state budget.

Capital Projects – 80% Federal, 10% State, 10% Local

Capital ADA – 85% Federal, 7.5% State, 7.5% Local

Operating New Freedom Projects (large urban and only if state funding available) – 50% Federal, 25% State, 25% Local

2.3.6 Program Requirements

Successful applicants will enter into a standard contract agreement with TDOT and provide the local match at time of contract execution. If the grantee declines to accept the award after entering into a contract with TDOT, then TDOT will require official notice and justification for declining the award. TDOT may retain the local match.

Grantees of federal and state funding are required to comply with all federal and state program requirements, including the submission of requested information and regular reports to document compliance and measure project performance. Compliance reviews, including on-site visits to monitor project performance, will be conducted by TDOT.

Grantees will be responsible for the proper use, operating costs, and maintenance of all vehicle and vehicle-related project awards.

2.4 FTA Section 5311

Formula Grants for Rural Areas

Circular: FTA C 9040.1G

Direct Recipient:

- TDOT Multimodal

2.4.1 Program Purpose

This program provides capital, planning, and operating assistance to support public transportation in rural areas with populations less than 50,000, where many residents often rely on public transit to reach their destinations. It also provides funding for state and national training and technical assistance through the Rural Transportation Assistance Program.

2.4.2 Eligible Applicants

Public transportation providers

2.4.3 Eligible Activities

Administration, planning, capital investments, operating, and job access reverse commute projects.

2.4.4 Project Selection

Annual program funds are apportioned by formula to the State. TDOT Multimodal allocates funds apportioned to rural areas by formula based on population, general public ridership, and general public revenue miles.

2.4.5 Match Requirements

TDOT is a pass through entity of federal funds.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with grantees to receive federal and state funds.

Capital – 80% Federal, 10% State, 10% Local

Capital ADA – 85% Federal, 7.5% State, 7.5% Local

Operating – 50% Federal, 25% State, 25% Local

Project Administration – 80% Federal, 10% State, 10% Local

Planning – 80% Federal, 10% State, 10% Local

State Overmatch (if available in the state annual budget) – All activities listed at 0% Federal, 50% State, 50% Local

2.4.6 Program Requirements

Agencies awarded federal and state funding are required to comply with all federal and state program rules and requirements as detailed in the federal program, administration, and procurement circulars as well as in the State Management Plan. Monthly, quarterly, and annual submission of information and reports to document compliance and measure project performance is required. Compliance reviews, including on-site visits to monitor project performance and management, will be conducted by TDOT.

2.5 FTA Section 5316

Job Access Reverse Commute

Circular:

Direct Recipient:

- TDOT Multimodal

2.5.1 Program Purpose

The 5316 program has been discontinued under MAP-21 legislation. The JARC program activities are now absorbed into the Section 5311 program.

2.5.2 Eligible Applicants

Existing 5316 program recipients

2.5.3 Eligible Activities

Vehicle procurement and operations for general public transportation service associated with accessing jobs.

2.5.4 Project Selection

The 5316 program has been discontinued under MAP-21 legislation. The JARC program activities are now absorbed into the Section 5311 program.

TDOT Multimodal will allocate residual 5316 funding based on competitive selection. During the review process, applicants may be required to provide justification for their request and TDOT Division of Multimodal Transportation Resources may require additional information for clarification. TDOT retains sole discretion to determine which projects will be funded and the amount of funds awarded to any given project.

2.5.5 Match Requirements

TDOT is a pass through entity of federal funds for small urban and rural grantees. TDOT is not a pass through entity of federal funds for large urban grantees.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with small urban and rural grantees to receive federal and state funds. Contracts are established with large urban grantees for state only funds.

Capital – 80% Federal, 10% State, 10% Local

Capital ADA (MAP-21 funds) – 85% Federal, 7.5% State, 7.5% Local

Capital ADA (SAFETEA-LU funds) – 83% Federal, 8.5% State, 8.5% Local

Operating Expenses – 50% Federal, 25% State, 25% Local

Project Administration – 80% Federal, 10% State, 10% Local

2.5.6 Program Requirements

Successful applicants will enter into a standard contract agreement with TDOT. Subrecipients must be prepared to comply with the conditions and requirements of TDOT, including submission of specific, on-going documentation of service provisions; as well as data and information to measure program performance. A complete list of program requirements is available in the State Management Plan.

2.6 FTA Section 5317

New Freedoms

Circular:

Direct Recipient:

- TDOT Multimodal

2.6.1 Program Purpose

The 5317 program has been discontinued under MAP-21 legislation. The Section 5310 program has been expanded under MAP-21 to incorporate New Freedom activities and projects.

This program provides new public transportation services and public transportation alternatives for transportation-disadvantaged individuals, beyond those required by the American Disabilities Act of 1990. The program also funds new and expanded fixed-route and demand-responsive transit service to meet the needs of individuals with disabilities. Toward these goals, the FTA provides financial assistance to states for transportation services “to provide additional tools to overcome existing barriers facing Americans with disabilities seeking integration into the work force and full participation in society

2.6.2 Eligible Applicants

Existing 5317 program recipients

2.6.3 Eligible Activities

Activities under the residual funding program include capital and operating items related to New Freedom services, including transportation to and from jobs and employment support services, as well as new and expanded fixed-route and demand-responsive transit service for individuals with disabilities. For the purpose of the New Freedom Program, a "new" service is any service or activity that was not operational on August 10, 2005, and did not have an identified funding source as of August 10, 2005. Projects should seek to use the funding in a timely manner to spend down and close out the expired grant program.

Both new public transportation services and new public transportation alternatives are required to go beyond the requirements of the ADA and must (1) be targeted toward individuals with disabilities; and (2) meet the intent of the program by removing barriers to transportation and assisting persons with disabilities with transportation, including transportation to and from jobs and employment services. Projects may include costs incurred under the New Freedom Program prior to TDOT approval of a contract under certain circumstances, provided the costs meet New Freedom program requirements and have not been reimbursed under another grant program.

2.6.4 Project Selection

The 5317 program has been discontinued under MAP-21 legislation. The Section 5310 program has

been expanded under MAP-21 to incorporate New Freedom activities and projects.

TDOT Multimodal will allocate residual 5317 funding based on competitive selection. During the review process, applicants may be required to provide justification for their request and TDOT Division of Multimodal Transportation Resources may require additional information for clarification. TDOT retains sole discretion to determine which projects will be funded and the amount of funds awarded to any given project.

2.6.5 Match Requirements

TDOT is a pass through entity of federal funds for small urban and rural grantees. TDOT is not a pass through entity of federal funds for large urban grantees.

TDOT provides for a state match if available in the state annual budget.

Contracts are established with small urban and rural grantees to receive federal and state funds. Contracts are established with large urban grantees for state only funds.

Capital – 80% Federal, 10% State, 10% Local

Capital ADA (MAP-21 funds) – 85% Federal, 7.5% State, 7.5% Local

Capital ADA (SAFETEA-LU funds) – 83% Federal, 8.5% State, 8.5% Local

Operating Expenses – 50% Federal, 25% State, 25% Local

Project Administration – 80% Federal, 10% State, 10% Local

2.6.6 Program Requirements

Successful applicants will enter into a standard contract agreement with TDOT. Subrecipients must be prepared to comply with the conditions and requirements of TDOT, including submission of specific, on-going documentation of service provisions; as well as data and information to measure program performance. A complete list of program requirements is available in the State Management Plan.

2.7 FTA Section 5339

Bus and Bus Facilities

Circular: FTA C 5100.1

Direct Recipient:

- Public transportation agencies designated as direct recipient in urbanized areas greater than 200,000 in population as determined by the 2010 US Census.
- TDOT Multimodal for urbanized areas less than 200,000 in population as determined by the 2010 US Census.

2.7.1 Program Purpose

Provide capital funding to replace revenue vehicles and vehicle-related equipment to support the continuation of public transportation services.

2.7.2 Eligible Applicants

Rural and small urban public agencies providing general public transportation that currently receive Section 5307 or 5311 program funds.

2.7.3 Eligible Projects

Capital projects to replace revenue vehicles and vehicle-related equipment that have met useful life through either years of service or mileage.

2.7.4 Project Selection

Process is competitive and based on need. Review of agency's application material and responses, total fleet size, average vehicle age, vehicles operated in maximum service, prioritization of vehicle replacement, and other service performance data will assist in selecting project awards.

During the selection review process, applicants may be required to provide additional agency and/or project information. TDOT retains sole discretion to determine which projects will be funded and the amount of funds awarded to any given project.

2.7.5 Match Requirements

Capital - 80% Federal, 10% State, 10% Local
Capital ADA - 85% Federal, 7.5% State, 7.5% Local

2.7.6 Program Requirements

Successful applicants enter into a standard contract agreement with TDOT. Subrecipients of federal and state funding are required to comply with all federal and state program requirements, including the submission of requested information and regular reports to document compliance and measure project performance. Compliance reviews, including on-site visits to monitor project performance, will be conducted by TDOT.

Subrecipients will be responsible for the proper use, operating costs, and maintenance of all vehicle and vehicle-related project equipment.

Successful applicants are strongly encouraged to purchase revenue vehicles from the current Statewide Contract through the Tennessee Department of General Services, Division of Purchasing. Procurements from other sources will require a pre-approval, multi-step review process by TDOT.

2.8 State UROP

Section to be developed.

Chapter 3. Grant Reimbursements

3.1 The Reimbursement Process

Grantees provide transit services to the general public. These services require funding to pay for the expenses generated in daily operations. TDOT offers financial assistance through federal and state transit programs to pay a portion of the expenses for these services. After demonstrating eligibility and compliance, the grantee will submit a program budget through a program application process from which a grant contract agreement is developed and executed with TDOT. As the grantee incurs expenses for transit operations, these expenses can be partially reimbursed with federal and state funds through the reimbursement process based upon the grant contract budget established. In the reimbursement process, TDOT receives a program expense reimbursement form, checklists, and expense documentation to meet the compliance rules of programs to provide federal and state refunds of expenses.

3.2 The Schedule of Expenditures (SOE) Reimbursement Form

The grantee must collect documents throughout all stages of the transaction: the initiation, activity during, and at the completion of incurring program expenses. Note that TDOT's contracts only provide for reimbursement of allowable expenses paid by the grantee. Reimbursement of expenses prior to grantee payment is not allowed. Transaction documentation must be included with an Excel spreadsheet, the Schedule of Expenditures (SOE) form, that itemizes transaction amounts and summarizes the reimbursement request.

3.2.1 Heading Information

The top of the SOE provides space for the grantee to identify the program, grant, and contract from which reimbursement is being requested. All data fields must be completed. The data elements to be completed are:

1. To/State Agency.
 - a. Response – “TDOT – Multimodal”. This is state division from whom the grantee is requesting reimbursement.
2. Contractor/Grantee Name.
 - a. Response – enter the grantee name in this field.
3. Contractor/Grantee Address.
 - a. Response – address of the grantee.
4. FEIN Number.
 - a. Response – the Federal Employer Identification Number of the grantee.
5. Contract Number.
 - a. Response – this is the contract number assigned by TDOT that is listed on the pages of the contract from which requesting reimbursement.
6. State Project Number.

- a. Response – this is the state project number assigned by TDOT that is listed on the pages of the contract from which requesting reimbursement.
- 7. Invoice Number.
 - a. Response – this is an invoice number assigned by the grantee for the reimbursement request. It is preferred to use the invoice numbering convention of the contract number plus the series invoice. For example, a contract number of Z18GT0001 would use “Z18GT0001-03” for the third reimbursement request on the contract.
- 8. Invoice Ending Date.
 - a. Response – this is the period end for the reimbursement request. For example, a reimbursement request that covers the month of May, 2018 would be “5/31/2018”.
- 9. Contract Period.
 - a. Response – this is the time scope of the contract. For example a contract that covers the period July 1st, 2017 through December 31, 2018 would be, “7/1/2017 – 12/31/2018”.
- 10. Contact Person/Telephone.
 - a. Response – name and telephone number of person to answer questions about the reimbursement request, if there are any. For example, “Bob Smith (555) 987-6543”.
- 11. Program.
 - a. Response – the program for services. For example, “5311”.
- 12. FTA TEAM (TrAMS) Number.
 - a. Response – the federal grant number listed by TDOT on the pages of the contract from which requesting reimbursement. For example, “TN37X014”.

3.2.2 SOE Columns – Request Reconciliation and Budget

In the body of the SOE form is five columns where the program expense amounts are entered and federal and state refund amounts to be requested are determined or entered. Each column is grouped into rows that relate to expense activities as reflected in the contract budget. Grant contract budgets are separated into activities.

The first column list titles of activity groups and expense items in the activity. Each activity group is summarized with the state and federal share titles. At the bottom of the column the activities are summarized to grand total titles for RTAP, Federal, and state shares.

The last column is where the grantee will enter the grant contract budget. This budget can be found at the last two pages in the TDOT grant contract. The amounts from the budget should be entered into this column. This column will act as a control guide to refer to and prevent exceeding the contract budget total as incremental reimbursements are requested.

The remaining three middle columns are used to itemize and track reimbursement requests and progress to date.

The “Amount Due This Invoice (1)” column is where the current invoice period reimbursement request is entered. Expenses are entered by activities. The activities to enter are

- 1. Administration of program activities,

- a. Enter the amount in the summary row for the type of expenses in this activity.
 - b. Activity total should be calculated.
 - c. Share percentages for this activity are usually 80% Federal and 10% State, as designated in the grant contract budget.
2. Funding for technical assistance for program activities
 - a. Only one row amount to enter for the type of expenses in this activity.
 - b. Activity total should be calculated.
 - c. Share percentages for this activity are usually 100% Federal and 0% State, as designated in the grant contract budget.
 3. Planning program activities,
 - a. Only one row amount to enter for the type of expenses in this activity.
 - b. Activity total should be calculated.
 - c. Share percentages for this activity are usually 80% Federal and 10% State, as designated in the grant contract budget.
 4. Purchasing capital assets, and
 - a. Capital asset purchases are separated by “ADA” vehicles and regular vehicles.
 - b. Enter the total amount of assets purchased for each row.
 - c. Activity total should be calculated.
 - d. Share percentages for this activity depend upon the grant funds and as designated in the grant contract budget.
 - i. SAFETEA LU grants, ADA: 83% Federal and 7.5% State.
 - ii. MAP 21 grants, ADA: 85% Federal and 8.5% State.
 - iii. All non-ADA assets: 80% Federal and 10% State.
 5. Operating expenses of program activities.
 - a. Enter the amount in the summary row for the type of expenses in this activity.
 - b. Activity sub-total should be calculated.
 - c. Enter any fare box revenues received for the program.
 - d. Subtract fare box revenue from the sub-total to determine the Total Operating amount.
 - e. Share percentages for this activity are usually 80% Federal and 10% State, as designated in the grant contract budget.
 6. Grand total expenses
 - a. Grand Total RTAP Requested – This should calculate the RTAP total amount.
 - b. Grand Total Federal Requested – This should calculate the Federal total activity amounts minus the RTAP amount.
 - c. Grand Total State Requested – This should calculate the State total activity amounts.
 - d. Totals – the total RTAP, Federal, and State Requested amounts all totaled.

The “Amount Previously Invoiced (2)” column is the sum of all previous invoice reimbursement requests paid, itemized by the activity rows. It is easiest to generate this row by starting a new invoice from a copy of the previous invoice requested and copying, “special”, the amounts in the “Amount Due This Invoice (1)” column to this column by adding values.

The “Cumulative Expenditures (1+2=3)” column is the grand total of the previous two columns. This column should be a calculated field column, which for each row is the sum of the previous two

column fields. It is this column that is used to compare to the last “Contract Budget” column to confirm that the contract budget is not exceeded in the current reimbursement request.

3.2.3 SOE Footer Information

At the bottom of the SOE form the grantee executive, that is named in the contract, signs signifying the accuracy of the reimbursement request information, compliance with contract provisions, and that this reimbursement has not been previously requested.

Upon receipt, review and approval of the request, a TDOT program monitor will sign and date the left bottom side.

3.3 Invoice Checklist

TDOT has developed a checklist which subrecipients are required to submit along with requests for reimbursements. The following information are required to be provided on the checklist:

- Trip data for the reimbursement period,
- Farebox revenue for the reimbursement period. Subrecipients must deduct farebox revenue from gross operating expense to calculate net operating income. Revenue from human service contracts is not required to be deducted from gross operating expense (See Tracking Program Income). The amount of the program income listed on the checklist must match the amount reported on the SOE.
- Indicate if any cost is categorized as Other Direct cost and provide documentation of the purchase;
- Indicate if invoice include capital asset purchases greater than \$5,000
- Indicate if request includes any payment to DBE’s

The invoice checklist contains a number of questions to enhance oversight of several compliance areas, including DBE, Davis-Bacon, and farebox revenue. TDOT may add other items to the invoice checklist on an as-needed basis.

3.4 Support Documentation

Supporting documentation shall detail the nature and propriety of the charges. As per the contract terms, TDOT may request any documentation deemed necessary to confirm expenses charged and their allowability. Support documentation shall include a summary sheet showing the itemization of transactions by each Activity Line Item (ALI) as shown in the contract budget. Itemization should include the transaction description and the amount to be billed to the ALI. All support documentation should be organized in a manner which allows documents to be linked to each transaction on the the summary sheet. The support documentation must also be arranged in order of the transaction on the summary sheet to allow easy review and matching of expenses to totals.

All cost items listed on the SOE and summary itemization must be supported by an agency ledger

and copies of invoices and checks. Request for reimbursement for purchase of vehicles must be accompanied by copies of checks and Bill of sale. Bill of sale shall include the following information;

- Odometer of the vehicle;
- Vehicle Identification Number

All travel and training costs shall be supported with copies of the invoices and checks covering the total cost of travel or training being requested. Items classified as “Other Direct” cost on the SOE must be itemized and copies of invoice and check payments provided. The list below provides a summary of required documentation for all cost items on the SOE;

- Salaries & Wages – Payroll register/Ledger summary
- Fringe Benefits – Payroll register/ledger summary
- Travel & Training – Detail Itemization with copies of invoices and checks/receipts with debit/credit card visa payments
- Rent & Utilities – Detail Itemized summary
- Communications – Detail Itemized summary
- Supplies – Detail Itemized summary
- Printing – Detail Itemized summary
- Vehicle Operating - Detail Itemized summary
- Licenses – Detail Itemized summary
- Insurance – Detail Itemized summary
- Drug/Alcohol Testing – Detail Itemized summary
- Other direct costs – Detail Itemization with copies of invoices and checks/receipts with debit/credit card visa payments

Indirect cost documentation is also required for requests that include an indirect cost reimbursement request. The indirect cost expense documentation needed is

1. Itemized Pool Detail: For each pool, provide a list of cost items included in that pool along with an amount for each item, as well as the grand total for the pool. Each pool list needs to include a description and amount, with pool grand total, of the indirect cost expenses. Remember that only allowable expenses are to be included in cost pool amounts.
2. Allocation of Costs Across Programs: For each indirect cost pool determined in item 1, please show the allocation of the pool across programs, with percentages, and clearly show how the amount on the Schedule of Expenditures (SOE) was calculated. The percentage or percentages need to match those approved by your cognizant agency in your cost allocation plan. If more than one indirect cost pool, please show the amount on the SOE as the sum of the results from the multiple pools.

Chapter 4. Allowable Costs

The following sections list the cost types as mentioned in the super circular's short list of cost types. The determination is to be used regardless of whether the cost is a direct or indirect cost, unless specifically defined. As per the circular, failure to mention a particular item in the cost list is not intended to imply that a cost is either allowable or unallowable, rather the determination as to allowability in each case should be based on the treatment provided for similar or related items of costs and based on principles described in the considerations for developing a written procedure for determining allowable costs.

4.1 Uniform System of Accounts

The Uniform System of Accounts (USOA) is the basic reference document for the National Transit Database. It contains the accounting structure required by Federal Transit laws (previously Section 15 of the Federal Transit Act).

Excerpts from the USOA:

The transit industry is comprised of many individual mass transit agencies of varying sizes and modes of operation. In order to achieve the desired consistency, it is necessary that all transit agencies meet the same accounting and reporting requirements. Transit agencies may, however, add optional information to their reports.

The main purpose of the USOA is to ensure that data definitions are uniform for all transit agencies. Each transit agency must maintain the accounts and records necessary to meet its own internal information requirements as well as those specified in the USOA. In some cases, information needed for internal management purposes will include data not required under the USOA. Accordingly, it is not mandatory that the internal books of account for a transit agency be maintained solely as described in the USOA. Each transit agency should customize its internal system of accounts to meet its own management requirements and also ensure that it is able to translate its accounts to the prescribed uniform system of accounts.

It is recommended that records be kept in a manner that allows ready analysis by the prescribed accounts and permits preparation of financial and operating data directly from such records at the end of the fiscal year. Any summary and/or translation to the prescribed accounts must be consistent with the following:

- The reported data have been developed using the accrual method of accounting
- The accounting treatment specified in the Accounting Practice Instructions (Chapter 2) has been followed.
- The transit agency accounting categories (chart of accounts) have been correctly related via a clear audit trail to the accounting categories employed in the USOA.

Accrual Method of Accounting (this is not the method for which reimbursements are made.)

The accrual basis of accounting is used in the USOA. Using the accrual basis, expenditures will be recorded as soon as they result in liabilities for benefits received, regardless of whether or not payment of the expenditure is made in the same accounting period. Similarly, revenues are recorded when earned, regardless of whether or not receipt of revenue takes place in the same reporting period.

An element of accrual accounting is that the reporter needs support that events have actually occurred that will result in the accrual of revenues or expenses.

When an organization receives a contribution, grant, appropriation, or contract, whose use is limited to a specified purpose, it has not earned revenue until the funds have been spent for that purpose.

Those transit agencies that use cash-basis or encumbrance-basis accounting, in whole or in part, must make work sheet adjustments to record the data on the accrual basis as described in the USOA.

4.2 General Allowability of Costs

Costs must meet the following general criteria in order to be allowable under Federal awards,

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
2. Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided.
6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

4.3 Direct costs

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award.

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

1. Administrative or clerical services are integral to a project or activity;
2. Individuals involved can be specifically identified with the project or activity;
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
4. The costs are not also recovered as indirect costs.

The costs of certain activities are not allowable as charges to Federal awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their equitable share of the non-Federal entity's indirect costs if they represent activities which:

1. Include the salaries of personnel,
2. Occupy space, and
3. Benefit from the non-Federal entity's indirect (F&A) costs.

For nonprofit organizations, the costs of activities performed by the Subrecipient primarily as a service to members, clients, or the general public when significant and necessary to the Subrecipient's mission must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

1. Maintenance of membership rolls, subscriptions, publications, and related functions. See also the section on Memberships, subscriptions, and professional activity costs.
2. Providing services and information to members, legislative or administrative bodies, or the public. See also the sections on Memberships, subscriptions, and professional activity costs and Lobbying.
3. Promotion, lobbying, and other forms of public relations. See also sections on Advertising and public relations and Lobbying.
4. Conferences except those held to conduct the general administration of the Subrecipient. See section on Conferences.
5. Maintenance, protection, and investment of special funds not used in operation of the Subrecipient.
6. Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid. See also section on Compensation—fringe benefits.

4.4 Indirect costs

Indirect, facilities and administration (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Indirect cost rate proposal is the documentation prepared by a Subrecipient to substantiate its request for the establishment of an indirect cost rate as described in Appendix III through Appendix VII of the Super Circular (2 CFR Chapter I, and Chapter II, Part 200).

TDOT as a pass-through entity must identify an approved indirect cost rate negotiated between the Subrecipient and the federal government or, if no rate exists, then the rate negotiated between the Subrecipient and the state cognizant agency.

4.5 Applicable Credits

Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the Subrecipient relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the Federal government to finance activities or service operations of the Subrecipient should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to the Federal award.

4.6 Cost definitions and allowability

4.6.1 Advertising and public relations

Definitions: Advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.

Public relations includes community relations and means those activities

dedicated to maintaining the image of the Subrecipient or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

Allowable:

Only advertising costs for

1. The recruitment of personnel required for performance of the federal award,
2. The procurement of goods and services for the federal award,
3. The disposal of scrap or surplus materials acquired in the performance of the federal award except when Subrecipients are reimbursed for disposal costs at a predetermined amount,
4. Program outreach and other specific purposes necessary to meet the requirements of the federal award.

Only public relations costs for

1. Costs specifically required by the federal award,
2. Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Federal award (these costs are considered necessary as part of the outreach effort for the Federal award)
3. Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of funding opportunities, financial matters, etc.

Unallowable:

1. All other advertising and public relations cost not mentioned in the allowable section,
2. Costs of meeting, conventions, or other events related to other activities of the Subrecipient, including
 - a. Costs of displays, demonstrations, and exhibits,
 - b. Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events,
 - c. Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings,
3. Costs of promotional items and memorabilia, including models, gifts and souvenirs,
4. Costs of advertising and public relations designed solely to promote the Subrecipient.

4.6.2 Advisory councils

Definitions: Costs of advisory councils or committees

Allowable: Only costs authorized by statute, the FTA, or as an indirect costs where allocable to federal awards.

Unallowable: All costs, unless authorized by statute, the federal awarding agency (FTA) or as an indirect cost where allocable to federal awards.

4.6.3 Alcoholic beverages

Definitions: Costs of providing alcoholic beverages.

Allowable: None.

Unallowable: All costs.

4.6.4 Audit services

Definitions: Costs required by, and performed in accordance with, the Single Audit Act Amendments of 1996 as implemented by 2 CFR Chapter II, Part 200, Subpart F (see Handbook Section “Annual Audit”)

Allowable:

1. Reasonably proportionate share of costs.
2. Costs of a financial statement audit of a Subrecipient that does not currently have a federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.

Unallowable:

1. Costs when audits required by 2 CFR Chapter II, Part 200, Subpart F have not been conducted or not conduct in accordance with those rules.
2. Direct costs of audits when the Subrecipient does not meet the \$750,000 threshold.

4.6.5 Bad debt

Definitions: Debts which have been determined to be uncollectible and either actual or estimated losses arising from uncollectable accounts and other claims.

Allowable: None.

Unallowable: All bad debt costs, including related collection costs and legal costs.

4.6.6 Bonding costs

Definitions: Costs that arise when,

1. The FTA requires assurance against financial loss either to itself or other parties by reason of default of the Subrecipient.
2. In instances when the Subrecipient requires assurance including bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds for employees and officials.

Allowable:

1. Bonding costs required in the terms and conditions of the Federal award.
2. Bonding costs required by the Subrecipient in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practices and the rates and premiums are reasonable under the circumstances.

Unallowable: None specifically mentioned, however, care should be taken as to bonding costs

as a direct cost. Any cost as a direct cost should be for employees or operations that are used directly for the program and activities of the federal award.

4.6.7 Compensation—personal services

Definitions: All remuneration, paid or currently accrued, for employees services rendered, which includes but not limited to salaries and wages. See also, “Compensation—fringe benefits”

Total compensation of employees for personal services performed during the period of performance under the Federal award that

1. Is reasonable for the services performed and conforms to the established written policy of the Subrecipient consistently applied to both Federal and non-Federal activities,
 - a. Costs are considered reasonable to the extent that they are consistent with that paid for similar work in other activities of the Subrecipient. In cases where the kind of employees required for Federal awards are not found in the other activities of the Subrecipient, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the Subrecipient competes for the kind of employees involved.
 - b. Unless an arrangement is specifically authorized by the Federal awarding agency, a Subrecipient must follow its written Subrecipient-wide policies and practices concerning the permissible extent of professional services that can be provided outside the Subrecipient for non-organizational compensation. Where such Subrecipient-wide written policies do not exist or do not adequately define the permissible extent of consulting or other non-organizational activities undertaken for extra outside pay, the Federal government may require that the effort of professional staff working on Federal awards be allocated between:
 - i. Subrecipient activities, and
 - ii. Non-organizational professional activities. If the Federal awarding agency considers the extent of the non-organizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the Federal award, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.
2. Follows an appointment made in accordance with the Subrecipient’s laws, rules, or written policies and meets the requirement of Federal statute,
3. Is determined and supported as in the standards for documentation of personal expenses
 - a. Records must accurately reflect the work performed.
 - i. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
 - ii. Be incorporated into the official records of the Subrecipient;
 - iii. Reasonably reflect the total activity for which the employee is compensated by the Subrecipient, not exceeding 100% of

- compensated activities;
 - iv. Encompass both federally assisted and all other activities compensated by the Subrecipient on an integrated basis, but may include the use of subsidiary records as defined in the Subrecipient's written policy;
 - v. Comply with the established accounting policies and practices of the Subrecipient;
 - vi. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity;
 - vii. TDOT uses only reimbursement contracts so no estimates may be used.
- b. For records which meet the standards required in paragraph (3)(a) of this section, the Subrecipient will not be required to provide additional support or documentation for the work performed, other than that referenced in paragraph (3)(c) of this section.
 - c. In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.
 - d. Salaries and wages of employees used in meeting cost sharing or matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards.

Allowable:

1. Total compensation-personal services costs for certain employees that do not exceed the statutory ceiling as defined in 10 U.S.C. 2324(e)(1)(P), 41 U.S.C. 1127, and 41 U.S.C. 4304(a)(16) (these codes speak to Subrecipient executives, the five most highly compensated employees in a management position, and employee costs that exceed \$487,000, annually adjusted, except for a few technical fields such as doctors, scientists, engineers.)
2. Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the Subrecipient and the employees before the services were rendered, or pursuant to an established plan followed by the Subrecipient so consistently as to imply, in effect, an agreement to make such payment.

Unallowable:

1. Costs which are unallowable under other cost principles and definitions are not allowable on the basis they are compensation-personal services costs (for example, salaries and wages of employees while setting up trade shows, see Advertising and Public Relations),
2. Compensation-personal services costs for certain employees that exceed the statutory ceiling as defined in 10 U.S.C. 2324(e)(1)(P), 41 U.S.C. 1127, and

41 U.S.C. 4304(a)(16) (these codes speak to Subrecipient executives, the five most highly compensated employees in a management position, and employee costs that exceed \$487,000, annually adjusted, except for a few technical fields such as doctors, scientists, engineers.)

4.6.8 Compensation-fringe benefits

Definitions: Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans

- Allowable:
1. Fringe benefits that are reasonable and are required by law, Subrecipient-employee agreement, or an established policy of the Subrecipient.
 2. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met:
 - a. They are provided under established written leave policies;
 - b. The costs are equitably allocated to all related activities, including Federal awards; and,
 - c. The accounting basis for reimbursement is cash basis. When a Subrecipient uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment.
 3. The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in Insurance and indemnification); pension plan costs (see item (6) following); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities, and charged as direct or indirect costs in accordance with the Subrecipient's accounting practices.
 4. Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made must not exceed the present value of the liability.
 5. Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation.

6. Pension plan costs which are incurred in accordance with the established policies of the Subrecipient are allowable, provided that:
 - a. Such policies meet the test of reasonableness,
 - b. The methods of cost allocation are not discriminatory,
 - c. The cost assigned to each fiscal year is determined in accordance with GAAP.
 - d. The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. Subrecipient may elect to follow the “Cost Accounting Standard for Composition and Measurement of Pension Costs” (48 CFR 9904.412).
 - e. Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act (ERISA) of 1974 (29 U.S.C. 1301–1461) are allowable.
 - f. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the Subrecipient.
 - i. For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.
 - ii. Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency for indirect costs) are allowable in the year funded. The cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal government and related Federal reimbursement and the Subrecipient’s contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal government for the time value of Federal reimbursements in excess of contributions to the pension fund.
 - iii. Amounts funded by the Subrecipient in excess of the actuarially determined amount for a fiscal year may be used as the Subrecipient’s contribution in future periods.
 - iv. When a Subrecipient converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion is allowable if amortized over a period of years in accordance with GAAP.
 - v. The Federal government must receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the Subrecipient in the form of a refund, withdrawal, or other credit.
 - g. Postretirement health plans (PRHP) refers to costs of health insurance or health services not included in a pension plan covered by the pension plans cost paragraph of this section for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an acceptable actuarial

cost method in accordance with established written policies of the Subrecipient.

- i. For PRHP financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.
 - ii. PRHP costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The Federal cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal government and related Federal reimbursements and the Subrecipient's contributions to the PRHP fund. Adjustments may be made by cash refund, reduction in current year's PRHP costs, or other equitable procedures to compensate the Federal government for the time value of Federal reimbursements in excess of contributions to the PRHP fund.
 - iii. Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the Federal government's contribution in a future period.
 - iv. When a Subrecipient converts to an acceptable actuarial cost method and funds PRHP costs in accordance with this method, the initial unfunded liability attributable to prior years is allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency for indirect costs.
 - v. To be allowable in the current year, the PRHP costs must be paid either to:
 1. An insurer or other benefit provider as current year costs or premiums, or
 2. An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.
 - vi. The Federal government must receive an equitable share of any amounts of previously allowed postretirement benefit costs (including earnings thereon) which revert or inure to the entity in the form of a refund, withdrawal, or other credit.
- h. Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by Subrecipients to workers whose employment is being terminated.
- i. Costs of severance pay are allowable only to the extent that in each case, it is required by
 1. law,
 2. employer-employee agreement,
 3. established policy that constitutes, in effect, an implied agreement on the Subrecipient's part, or
 4. circumstances of the particular employment.

- ii. Costs of severance payments are divided into two categories as follows:
 - 1. Actual normal turnover severance payments must be allocated to all activities; or, where the Subrecipient provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the Subrecipient.
 - 2. The Federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Prior approval by the Federal awarding agency or cognizant agency of measurement of costs of abnormal or mass severance pay by means of an accrual for indirect cost, as appropriate, is required.
- iii. Severance payments, that are necessary for the performance of Federal programs and approved by the Federal awarding agency, to foreign nationals employed by the Subrecipient outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the Subrecipient in the United States, are allowable.
- iv. Severance payments, that are necessary for the performance of Federal programs and approved by the Federal awarding agency, to foreign nationals employed by the Subrecipient outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the Subrecipient in that country, are allowable.

Due to the complexity of pension plan, postretirement health, and severance costs, Subrecipients must make a request for such costs specifically at the time of the application submission. The cost approval request will then be incorporated to the federal grant request with the FTA for review and approval.

- Unallowable:
- 1. Automobile costs furnished by the Subrecipient that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect (F&A) costs regardless of whether the cost is reported as taxable income to the employees.
 - 2. Pension plan costs for the increase to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable.
 - 3. Late payment charges on pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act (ERISA) of 1974 (29 U.S.C. 1301–1461) are unallowable. Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.
 - 4. Measurement of costs of abnormal or mass severance pay by means of an accrual will not achieve equity to the Subrecipient and the Federal awarding

agency. Accruals, that do not have prior approval as an indirect cost, for this purpose are not allowable.

5. Costs incurred in certain severance pay packages which are in an amount in excess of the normal severance pay paid by the Subrecipient to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the Subrecipient's assets, are unallowable.
6. Severance payments, that are not necessary for the performance of Federal programs or are not approved by the Federal awarding agency, to foreign nationals employed by the Subrecipient outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the Subrecipient in the United States, are unallowable.
7. Severance payments, that are not necessary for the performance of Federal programs or are not approved by the Federal awarding agency, to foreign nationals employed by the Subrecipient outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the Subrecipient in that country, are unallowable.

4.6.9 Conferences

Definitions: A conference is defined as a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the Subrecipient and is necessary and reasonable for successful performance under the Federal award. See also Entertainment costs, Participant support costs, Travel costs, and Trustees.

Allowable: Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary and managed in a manner that minimizes costs to the Federal award.

Conference costs paid by the Subrecipient as a sponsor or host of the conference may include rental of facilities, speakers' fees, costs of meals and refreshments, local transportation, and other items incidental to such conferences unless further restricted by the terms and conditions of the Federal award.

The costs of identifying locally available dependent-care resources.

Unallowable: The costs of providing locally available dependent-care resources.

4.6.10 Contributions and donations

Definitions: Costs of contributions and donations, including cash, property, and services, from the Subrecipient to other entities.

The value of services and property donated to the Subrecipient.

Services donated or volunteered to the Subrecipient may be furnished to a Subrecipient by professional and technical personnel, consultants, and other

skilled and unskilled labor.

Allowable: No costs are allowable as direct or indirect cost.

The value of donated services to the Subrecipient may be used to meet matching requirements.

Unallowable: All contribution and donation costs both to and from the Subrecipient.

4.6.11 Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringements

Definitions: Costs incurred in connection with any criminal, civil or administrative proceeding (including filing of a false certification) commenced by the Federal government, a state, local government, or foreign government, or joined by the Federal government (including a proceeding under the False Claims Act), against Subrecipient, (or commenced by third parties or a current or former employee of the Subrecipient who submits a whistleblower complaint of reprisal in accordance with 10 U.S.C. 2409 or 41 U.S.C. 4712).

Conviction means a judgment or conviction of a criminal offense by any court of competent jurisdiction, whether entered upon verdict or a plea, including a conviction due to a plea of nolo contendere.

Costs include the services of inhouse or private counsel, accountants, consultants, or others engaged to assist the Subrecipient before, during, and after commencement of a judicial or administrative proceeding, that bear a direct relationship to the proceeding.

Fraud means:

1. Acts of fraud or corruption or attempts to defraud the Federal government or to corrupt its agents,
2. Acts that constitute a cause for debarment or suspension (as specified in agency regulations), and
3. Acts which violate the False Claims Act or the Anti-kickback Act.

Penalty does not include restitution, reimbursement, or compensatory damages.

- Allowable:
1. If a proceeding referred to in (1) of the Unallowable section is commenced by the Federal government and is resolved by consent or compromise pursuant to an agreement by the Subrecipient and the Federal government, then the costs incurred may be allowed to the extent specifically provided in such agreement.
 2. If a proceeding referred to in (1) of the Unallowable section is commenced by a state, local or foreign government, the authorized Federal official may allow the costs incurred if such authorized official determines that the costs were incurred as a result of:
 - a. A specific term or condition of the Federal award, or

- b. Specific written direction of an authorized official of the Federal awarding agency.
3. These costs that are allowable are allowable only to the extent that
- a. The costs are reasonable and necessary in relation to the administration of the Federal award and activities required to deal with the proceeding and the underlying cause of action;
 - b. Payment of the reasonable, necessary, allocable and otherwise allowable costs incurred is not prohibited by any other provision(s) of the Federal award;
 - c. The costs are not recovered from the Federal Government or a third party,
 - d. An authorized Federal official must determine the percentage of costs allowed considering the complexity of litigation, generally accepted principles governing the award of legal fees in civil actions involving the United States, and such other factors as may be appropriate. Such percentage must not exceed 80 percent. However, if an agreement reached under item (1) above has explicitly considered this 80 percent limitation and permitted a higher percentage, then the full amount of costs resulting from that agreement are allowable.

Unallowable:

- 1. Not allowable if the proceeding,
 - a. Relates to a violation of, or failure to comply with, a Federal, state, local or foreign statute, regulation or the terms and conditions of the Federal award, by the Subrecipient (including its agents and employees); and
 - b. Results in any of the following dispositions:
 - i. In a criminal proceeding, a conviction.
 - ii. In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of Subrecipient liability.
 - iii. In the case of any civil or administrative proceeding, the disallowance of costs or the imposition of a monetary penalty, or an order issued by the Federal awarding agency head or delegate to the Subrecipient to take corrective action under 10 U.S.C. 2409 or 41 U.S.C. 4712.
 - iv. A final decision by an appropriate Federal official to debar or suspend the Subrecipient, to rescind or void a Federal award, or to terminate a Federal award for default by reason of a violation or failure to comply with a statute, regulation, or the terms and conditions of the Federal award.
 - v. A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in paragraphs (2)(a) through (d) of this section.

If more than one proceeding involves the same alleged misconduct, the costs of all such proceedings are unallowable if any results in one of the dispositions shown in paragraph (2) of this section.

- 2. Costs incurred by the Subrecipient in connection with the defense of suits brought by its employees or exemployees under section 2 of the Major Fraud

Act of 1988 (18 U.S.C. 1031), including the cost of all relief necessary to make such employee whole, where the Subrecipient was found liable or settled

3. Costs of prosecution of claims against the Federal government, including appeals of final Federal agency decisions
4. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the Federal award
5. Costs which may be unallowable under this section, including directly associated costs, must be segregated and accounted for separately. During the pendency of any proceeding covered by paragraphs (b) and (f) of this section, the Federal government must generally withhold payment of such costs. However, if in its best interests, the Federal government may provide for conditional payment upon provision of adequate security, or other adequate assurance, and agreement to repay all unallowable costs, plus interest, if the costs are subsequently determined to be unallowable.

4.6.12 Depreciation

Definitions: Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use.

Depreciation is computed applying the following rules. The computation of depreciation must be based on the acquisition cost of the assets involved. For an asset donated to the Subrecipient by a third party, its fair market value at the time of the donation must be considered as the acquisition cost. The acquisition cost will exclude:

1. The cost of land;
2. Any portion of the cost of buildings and equipment borne by or donated by the Federal government, irrespective of where title was originally vested or where it is presently located;
3. Any portion of the cost of buildings and equipment contributed by or for the Subrecipient, or where law or agreement prohibits recovery; and
4. Any asset acquired solely for the performance of a non-Federal award.

When computing depreciation charges, the following must be observed:

1. The period of useful service or useful life established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.
2. The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods must reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line

method must be presumed to be the appropriate method. Depreciation methods once used may not be changed unless approved in advance by the cognizant agency. The depreciation methods used to calculate the depreciation amounts for indirect (F&A) rate purposes must be the same methods used by the Subrecipient for its financial statements.

3. The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each component item may then be depreciated over its estimated useful life. The building components must be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms and glassware/washers). In exceptional cases, a cognizant agency may authorize a Subrecipient to use more than these three groupings. When a Subrecipient elects to depreciate its buildings by its components, the same depreciation methods must be used for indirect (F&A) purposes and financial statements purposes, as described in paragraphs (1) and (2) of this section.
4. No depreciation may be allowed on any assets that have outlived their depreciable lives.
5. Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The total amount of use allowance and depreciation for an asset (including imputed depreciation applicable to periods prior to the conversion from the use allowance method as well as depreciation after the conversion) may not exceed the total acquisition cost of the asset.

Allowable: This allowable cost is under review by TDOT.

Assets may be depreciated or claimed as matching but not both.

Charges for depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. Statistical sampling techniques may be used in taking these inventories. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.

The allocation for depreciation must be made in accordance with an approved cost allocation plan. (see 2 CFR Chapter II Part 200 Appendix IV through VIII)

Unallowable:

4.6.13 Employee health & welfare costs

Definitions: Costs incurred in accordance with the Subrecipient's documented policies for the improvement of working conditions, employer-employee relations, employee

health, and employee performance.

Such costs will be equitably apportioned to all activities of the Subrecipient. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably sent to employee welfare organizations.

Allowable: As defined are allowable.

Losses resulting from operating food services are allowable only if the Subrecipient's objective is to operate such services on a break-even basis. Losses sustained because of operating objectives other than the above are allowable only:

1. Where the Subrecipient can demonstrate unusual circumstances; and
2. With the approval of the cognizant agency for indirect costs.

Unallowable:

4.6.14 Entertainment

Definitions: Costs of entertainment, including amusement, diversion, and social activities and any associated costs

Allowable: None, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.

Unallowable: All

4.6.15 Equipment and other capital expenditures

Definitions: Capital assets means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

1. Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and
2. Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the Subrecipient for financial statement purposes, or \$5,000.

General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office

equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

Special purpose equipment means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

Capital expenditures means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

Acquisition cost means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the Subrecipient's regular accounting practices.

Allowable: Capital expenditures for general purpose equipment, buildings, and land are allowable as direct charges only with the prior written approval of the Federal awarding agency or the State.

Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity.

Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are allowable as a direct cost only with the prior written approval of the Federal awarding agency, or State.

When approved as a direct charge, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Federal awarding agency.

The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the Federal cognizant agency for indirect cost.

Cost of equipment disposal. If the Subrecipient is instructed by the Federal awarding agency to otherwise dispose of or transfer the equipment the costs of

such disposal or transfer are allowable.

Unallowable: Capital expenditures for general purpose equipment, buildings, and land are otherwise unallowable as direct charges.

Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are otherwise unallowable as a direct cost.

4.6.16 Fines, penalties, damages and other settlements

Definitions: Costs resulting from Subrecipient violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations

Allowable: Only allowable when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.

Unallowable: Otherwise, unallowable.

4.6.17 Fund raising and investment management costs

Definitions: Costs of organized fund raising and costs of investment counsel.

Both allowable and unallowable fund raising and investment activities must be allocated as an appropriate share of indirect costs under the conditions described in Direct costs.

Allowable: Fund raising costs for the purposes of meeting the Federal program objectives are allowable with prior written approval from the Federal awarding agency.

Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are allowable only when associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this Part.

Costs related to the physical custody and control of monies and securities are allowable.

Unallowable: Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable.

Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are otherwise unallowable.

4.6.18 Gains and losses on disposition of depreciable assets

Definitions: Gains and losses on the sale, retirement, or other disposition of depreciable property must be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) is the difference between the amount realized on the property and the undepreciated basis of the property.

Gains and losses from the disposition of depreciable property must not be recognized as a separate credit or charge under the following conditions:

1. The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under the Depreciation section and the Equipment section and other capital expenditures.
2. The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.
3. A loss results from the failure to maintain permissible insurance, except as otherwise provided in Insurance and indemnification.
4. Compensation for the use of the property was provided through use allowances in lieu of depreciation.
5. Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions must be considered on a case-by-case basis.

When assets acquired with Federal funds, in part or wholly, are disposed of, the distribution of the proceeds must be made in accordance with §§ 200.310 Insurance Coverage through 200.316 Property trust relationship.

Allowable:

Unallowable: Gains or losses of any nature arising from the sale or exchange of property other than the property covered in paragraph (a) of this section, e.g., land, must be excluded in computing Federal award costs.

4.6.19 Goods or services for personal use

Definitions: Costs of goods or services for personal use of the Subrecipient's employees.

Allowable: Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees. In addition, to be allowable direct costs must be approved in advance by the FTA.

Unallowable: All are unallowable regardless of whether the cost is reported as taxable income to the employees.

4.6.20 Insurance and indemnification

Definitions: Costs of insurance required or approved and maintained, pursuant to the Federal award..

Allowable: Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.

Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:

1. Types and extent and cost of coverage are in accordance with the Subrecipient's policy and sound business practice.
2. Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal government property are unallowable except to the extent that the Federal awarding agency has specifically required or approved such costs.
3. Costs allowed for business interruption or other similar insurance must exclude coverage of management fees.
4. Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation (see § 200.431 Compensation—fringe benefits). The cost of such insurance when the Subrecipient is identified as the beneficiary is unallowable.
5. Insurance against defects. Costs of insurance with respect to any costs incurred to correct defects in the Subrecipient's materials or workmanship are unallowable.
6. Medical liability (malpractice) insurance. Medical liability insurance is an allowable cost of Federal research programs only to the extent that the Federal research programs involve human subjects or training of participants in research techniques. Medical liability insurance costs must be treated as a direct cost and must be assigned to individual projects based on the manner in which the insurer allocates the risk to the population covered by the insurance.

Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

Contributions to a reserve for certain self-insurance programs including workers' compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

1. The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, must not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the Subrecipient's settlement rate for those liabilities and its investment rate of return.

2. Earnings or investment income on reserves must be credited to those reserves.
3. (3)
 - a. Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims:
 - i. Submitted and adjudicated but not paid;
 - ii. Submitted but not adjudicated; and
 - iii. Incurred but not submitted.
 - b. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.
4. Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the Subrecipient. If individual departments or agencies of the Subrecipient experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.
5. Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund or unrestricted account), refunds must be made to the Federal government for its share of funds transferred, including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with applicable Federal cognizant agency for indirect cost, claims collection regulations.

Insurance refunds must be credited against insurance costs in the year the refund is received.

Indemnification includes securing the Subrecipient against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal government is obligated to indemnify the Subrecipient only to the extent expressly provided for in the Federal award, except as provided in paragraph (c) of this section.

Unallowable:

4.6.21 Intellectual property

Definitions:

Allowable:

Unallowable:

4.6.22 Interest

Definitions: Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the Subrecipient's own funds.

Capital asset is as defined in section 4.3.15 Equipment and other capital expenditures. An asset cost includes (as applicable) acquisition costs, construction costs, and other costs capitalized in accordance with GAAP.

For Subrecipient fiscal years beginning on or after January 1, 2016, intangible assets include patents and computer software. For software development projects, only interest attributable to the portion of the project costs capitalized in accordance with GAAP is allowable.

Allowable: Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to the following conditions.

1. The Subrecipient uses the capital assets in support of Federal awards;
2. The allowable asset costs to acquire facilities and equipment are limited to a fair market value available to the Subrecipient from an unrelated (arm's length) third party.
3. The Subrecipient obtains the financing via an arm's-length transaction (that is, a transaction with an unrelated third party); or claims reimbursement of actual interest cost at a rate available via such a transaction.
4. The Subrecipient limits claims for Federal reimbursement of interest costs to the least expensive alternative. For example, a capital lease may be determined less costly than purchasing through debt financing, in which case reimbursement must be limited to the amount of interest determined if leasing had been used.
5. The Subrecipient expenses or capitalizes allowable interest cost in accordance with GAAP.
6. Earnings generated by the investment of borrowed funds pending their disbursement for the asset costs are used to offset the current period's allowable interest cost, whether that cost is expensed or capitalized. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.
7. The following conditions must apply to debt arrangements over \$1 million to purchase or construct facilities, unless the Subrecipient makes an initial equity contribution to the purchase of 25 percent or more. For this purpose, "initial equity contribution" means the amount or value of contributions made by the Subrecipient for the acquisition of facilities prior to occupancy.
 - a. The Subrecipient must reduce claims for reimbursement of interest cost by an amount equal to imputed interest earnings on excess cash flow attributable to the portion of the facility used for Federal awards.
 - b. The Subrecipient must impute interest on excess cash flow as follows:
 - i. Annually, the Subrecipient must prepare a cumulative (from the inception of the project) report of monthly cash inflows and outflows, regardless of the funding source. For this purpose, inflows consist of Federal reimbursement for depreciation, amortization of capitalized construction

interest, and annual interest cost. Outflows consist of initial equity contributions, debt principal payments (less the pro-rata share attributable to the cost of land), and interest payments.

- ii. To compute monthly cash inflows and outflows, the Subrecipient must divide the annual amounts determined in step (i) by the number of months in the year (usually 12) that the building is in service.
 - iii. For any month in which cumulative cash inflows exceed cumulative outflows, interest must be calculated on the excess inflows for that month and be treated as a reduction to allowable interest cost. The rate of interest to be used must be the three month Treasury bill closing rate as of the last business day of that month.
8. Interest attributable to a fully depreciated asset is unallowable.

Additional conditions for states and local governments. For costs to be allowable, the Subrecipient must have incurred the interest costs for buildings after October 1, 1980, or for land and equipment after September 1, 1995.

1. The requirement to offset interest earned on borrowed funds against current allowable interest cost (paragraph (5.), above) also applies to earnings on debt service reserve funds.
2. The Subrecipient will negotiate the amount of allowable interest cost related to the acquisition of facilities with asset costs of \$1 million or more, as outlined in paragraph (7.) of this section. For this purpose, a Subrecipient must consider only cash inflows and outflows attributable to that portion of the real property used for Federal awards.

Unallowable: All other interest costs are unallowable.

4.6.23 Lobbying

Definitions: Lobbying with respect to certain grants, contracts, cooperative agreements, and loans is governed by relevant statutes, including among others, the provisions of 31 U.S.C. 1352, as well as the common rule, “New Restrictions on Lobbying” published at 55 FR 6736 (February 26, 1990), including definitions, and the Office of Management and Budget “Governmentwide Guidance for New Restrictions on Lobbying” and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), 57 FR 1772 (January 15, 1992), and 61 FR 1412 (January 19, 1996).

Allowable: None.

Unallowable: The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.

4.6.24 Losses on other awards or contracts

Definitions: Any excess of costs over income under any other award or contract of any nature. This includes, but is not limited to, the Subrecipient's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect (F&A) costs.

Also, any excess of costs over authorized funding levels transferred from any award or contract to another award or contract.

Allowable: None.

Unallowable: All losses on other awards or contracts are unallowable.

4.6.25 Maintenance and repair costs

Definitions: Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition.

Allowable: These costs are only allowable to the extent not paid through rental or other agreements.

Unallowable: Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital expenditures

4.6.26 Materials and supplies costs, including costs of computing devices

Definitions: Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award.

Purchased materials and supplies must be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.

Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

Allowable: All are allowable.

Materials and supplies used for the performance of a Federal award may be charged as direct costs. In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

Unallowable: All are allowable.

4.6.27 Memberships, subscriptions, and professional activity costs

Definitions: Costs of the Subrecipient's membership in business, technical, and professional organizations.

Costs of the Subrecipient's subscriptions to business, professional, and technical periodicals.

Allowable: All are allowable.

Costs of membership in any civic or community organization are allowable with prior approval by the Federal awarding agency or the State.

Unallowable: Costs of membership in any country club or social or dining club or organization are unallowable.

Costs of membership in organizations whose primary purpose is lobbying are unallowable.

4.6.28 Organization costs

Definitions: Costs such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselor, whether or not employees of the Subrecipient in connection with establishment or reorganization of an organization.

Allowable: Allowable only with prior approval from the federal awarding agency.

Unallowable: Otherwise, all are unallowable.

4.6.29 Participant support costs

Definitions: Participant support costs means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

Allowable: Allowable only with prior approval from the federal awarding agency.

Unallowable: Otherwise, all are unallowable.

4.6.30 Plant and security costs

Definitions: Necessary and reasonable expenses incurred for routine and security to protect facilities, personnel, and work products.

Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; protective (non-military) gear, devices, and equipment; contractual security services; and consultants.

Allowable: All are allowable.

Unallowable: Capital expenditures for plant security purposes are subject to section Equipment and other capital expenditures.

4.6.31 Pre-award costs

Definitions: Pre-award costs are those incurred prior to the effective date of the Federal award directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work.

Allowable: Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the Federal award and only with the written approval of the Federal awarding agency.

Unallowable: Otherwise, all others are unallowable.

4.6.32 Professional service costs

Definitions: Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the Subrecipient.

Allowable: These costs are allowable, subject to the next two paragraphs, when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal government. In addition, legal and related services are limited under the section regarding Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative.

However, the following factors are relevant:

1. The nature and scope of the service rendered in relation to the service required.
2. The necessity of contracting for the service, considering the Subrecipient's capability in the particular area.
3. The past pattern of such costs, particularly in the years prior to Federal

- awards.
4. The impact of Federal awards on the Subrecipient's business (i.e., what new problems have arisen).
 5. Whether the proportion of Federal work to the Subrecipient's total business is such as to influence the Subrecipient in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards.
 6. Whether the service can be performed more economically by direct employment rather than contracting.
 7. The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
 8. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

In addition to the factors listed in the previous paragraph, to be allowable, retainer fees must be supported by evidence of bona fide services available or rendered.

Unallowable: Otherwise, all others are unallowable.

4.6.33 Proposal costs

Definitions: Proposal costs are the costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects, including the development of data necessary to support the Subrecipient's bids or proposals.

Allowable: Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as indirect (F&A) costs and allocated currently to all activities of the Subrecipient.

Unallowable: No proposal costs of past accounting periods will be allocable to the current period.

4.6.34 Rearrangement and reconversion costs

Definitions: Costs incurred for ordinary and normal rearrangement and alteration of facilities.

Allowable: These costs are allowable as indirect costs.

Special arrangements and alterations costs incurred specifically for a Federal award are allowable as a direct cost with the prior approval of the Federal awarding agency or the State

Costs incurred in the restoration or rehabilitation of the Subrecipient's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are

allowable.

Unallowable: No other costs are listed as allowable, however the failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable.

4.6.35 Recruiting costs

Definitions: Costs of “help wanted” advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees.

Allowable: Provided that the size of the staff recruited and maintained is in keeping with workload requirements, these costs are allowable to the extent that such costs are incurred pursuant to the Subrecipient’s standard recruitment program. Where the Subrecipient uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

Where relocation costs incurred incident to recruitment of a new employee have been funded in whole or in part as a direct cost to a Federal award, and the newly hired employee resigns for reasons within the employee’s control within 12 months after hire, the Subrecipient will be required to refund or credit the Federal share of such relocation costs to the Federal government. See also the section regarding Relocation costs of employees.

Short-term, travel visa costs (as opposed to longer-term, immigration visas) are generally allowable expenses that may be proposed as a direct cost. Since short-term visas are issued for a specific period and purpose, they can be clearly identified as directly connected to work performed on a Federal award. For these costs to be directly charged to a Federal award, they must:

1. Be critical and necessary for the conduct of the project;
2. Be allowable under the applicable cost principles;
3. Be consistent with the Subrecipient’s cost accounting practices and Subrecipient policy; and
4. Meet the definition of “direct cost” as described in the applicable cost principles.

Unallowable: Special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel that do not meet the test of reasonableness or do not conform with the established practices of the Subrecipient, are unallowable.

4.6.36 Relocation costs of employees

Definitions: Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an

existing employee or upon recruitment of a new employee.

Allowable:

Relocation costs are allowable provided that:

1. The move is for the benefit of the employer.
2. Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.
3. The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses.

Allowable relocation costs for current employees are limited to the following:

1. The costs of transportation of the employee, members of his or her immediate family and his household, and personal effects to the new location.
2. The costs of finding a new home, such as advance trips by employees and spouses to locate living quarters and temporary lodging during the transition period, up to maximum period of 30 calendar days.
3. Closing costs, such as brokerage, legal, and appraisal fees, incident to the disposition of the employee's former home. These costs, together with those described in (4), are limited to 8 per cent of the sales price of the employee's former home.
4. The continuing costs of ownership (for up to six months) of the vacant former home after the settlement or lease date of the employee's new permanent home, such as maintenance of buildings and grounds (exclusive of fixing-up expenses), utilities, taxes, and property insurance.
5. Other necessary and reasonable expenses normally incident to relocation, such as the costs of canceling an unexpired lease, transportation of personal property, and purchasing insurance against loss of or damages to personal property. The cost of canceling an unexpired lease is limited to three times the monthly rental.

Allowable relocation costs for new employees are limited to those described in items 1 and 2 of the previous paragraph. When relocation costs incurred incident to the recruitment of new employees have been allowed either as a direct or indirect cost and the employee resigns for reasons within the employee's control within 12 months after hire, the Subrecipient must refund or credit the Federal government for its share of the cost. However, the costs of travel to an overseas location must be considered travel costs in accordance with the section regarding Travel costs, and not this section Relocation costs of employees, for the purpose of this paragraph if dependents are not permitted at the location for any reason and the costs do not include costs of transporting household goods.

Unallowable:

The following costs related to relocation are unallowable:

1. Fees and other costs associated with acquiring a new home.
2. A loss on the sale of a former home.
3. Continuing mortgage principal and interest payments on a home being sold.
4. Income taxes paid by an employee related to reimbursed relocation costs.

4.6.37 Rental costs of real property and equipment

Definitions:

Allowable: Rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

Rental costs under “sale and lease back” arrangements are allowable only up to the amount that would be allowed had the Subrecipient continued to own the property. This amount would include expenses such as depreciation, maintenance, taxes, and insurance.

Rental costs under “less-thanarm’s-length” leases are allowable only up to the amount as explained in the previous paragraph. For this purpose, a less-than-arm’s-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between:

1. Divisions of the Subrecipient;
2. The Subrecipient under common control through common officers, directors, or members; and
3. The Subrecipient and a director, trustee, officer, or key employee of the Subrecipient or an immediate family member, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, the Subrecipient may establish a separate corporation for the sole purpose of owning property and leasing it back to the Subrecipient.
4. Family members include one party with any of the following relationships to another party:
 - a. Spouse, and parents thereof;
 - b. Children, and spouses thereof;
 - c. Parents, and spouses thereof;
 - d. Siblings, and spouses thereof;
 - e. Grandparents and grandchildren, and spouses thereof;
 - f. Domestic partner and parents thereof, including domestic partners of any individual in 2 through 5 of this definition; and
 - g. Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.
5. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained in the previous paragraph) that would be allowed had the Subrecipient purchased the property on the date the lease agreement was executed. The provisions of GAAP must be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in the section regarding Interest.

Unallowable: Rental costs under “less-thanarm’s-length” leases are allowable only up to the amount as explained in the allowable section second paragraph.

1. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the Subrecipient purchased the

- property.
2. The rental of any property owned by any individuals or entities affiliated with the Subrecipient, to include commercial or residential real estate, for purposes such as the home office workspace is unallowable.

4.6.38 Selling and marketing costs

Definitions: Costs of selling and marketing any products or services of Subrecipient.

Allowable: Allowable only as long as the costs are able to be treated as direct costs and obtain prior written approval from the Federal awarding agency and it is necessary for the performance of the Federal award.

Also see the section regarding Advertising and public relations.

Unallowable: All of these costs are generally unallowable, however the failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable.

4.6.39 Specialized service facilities.

Definitions: The costs of services provided by highly complex or specialized facilities operated by the Subrecipient, such as computing facilities, wind tunnels, and reactors.

Allowable: These costs are allowable, provided the charges for the services meet the conditions of either of the next two paragraphs of this section, and, in addition, take into account any items of income or Federal financing that qualify as applicable credits as described in the section above Applicable credits.

The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:

1. Does not discriminate between activities under Federal awards and other activities of the Subrecipient, including usage by the Subrecipient for internal purposes, and
2. Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (F&A) costs. Rates must be adjusted at least biennially, and must take into consideration over/under applied costs of the previous period(s).

Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.

Under some extraordinary circumstances, where it is in the best interest of the Federal government and the Subrecipient to establish alternative costing

arrangements, such arrangements may be worked out with the Federal cognizant agency for indirect costs.

Unallowable:

4.6.40 Taxes (including Value Added Tax)

Definitions: Taxes that a governmental unit is legally required to pay.

Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal government.

Value Added Tax (VAT) Foreign taxes charged for the purchase of goods or services that a Subrecipient is legally required to pay in country

Allowable: Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs.

Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal government are allowable.

Value Added Tax (VAT) Foreign taxes charged for the purchase of goods or services that a Subrecipient is legally required to pay in country is an allowable expense under Federal awards. Foreign tax refunds or applicable credits under Federal awards refer to receipts, or reduction of expenditures, which operate to offset or reduce expense items that are allocable to Federal awards as direct or indirect costs. To the extent that such credits accrued or received by the Subrecipient relate to allowable cost, these costs must be credited to the Federal awarding agency either as costs or cash refunds. If the costs are credited back to the Federal award, the Subrecipient may reduce the Federal share of costs by the amount of the foreign tax reimbursement, or where Federal award has not expired, use the foreign government tax refund for approved activities under the Federal award with prior approval of the Federal awarding agency.

Unallowable: Self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs are not allowed.

This provision does not restrict the authority of the Federal awarding agency to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency for indirect costs may accept a reasonable approximation thereof.

4.6.41 Termination costs

Definitions: Termination of a Federal award generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the

Federal award not been terminated.

Allowable:

If in a particular case, despite all reasonable efforts by the Subrecipient, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this Part, except that any such costs continuing after termination due to the negligent or willful failure of the Subrecipient to discontinue such costs must be unallowable.

Loss of useful value of special tooling, machinery, and equipment is generally allowable if:

1. Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the Subrecipient,
2. The interest of the Federal government is protected by transfer of title or by other means deemed appropriate by the Federal awarding agency (see also the section regarding Equipment, the next paragraph in this section, and
3. The loss of useful value for any one terminated Federal award is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, machinery, or equipment was acquired.

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated Federal award less the residual value of such leases, if:

1. The amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the Federal award and such further period as may be reasonable, and
2. The Subrecipient makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.

Settlement expenses including the following are generally allowable:

1. Accounting, legal, clerical, and similar costs reasonably necessary for:
 - a. The preparation and presentation to the Federal awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for cause (see Subpart D—Post Federal Award Requirements of this Part, §§ 200.338 Remedies for Noncompliance through 200.342 Effects of Suspension and termination); and
 - b. The termination and settlement of subawards.
2. Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal government or acquired or produced for the Federal award.

Claims under subawards, including the allocable portion of claims which are common to the Federal award and to other work of the Subrecipient, are generally allowable. An appropriate share of the Subrecipient's indirect costs may be allocated to the amount of settlements with contractors and/or subrecipients, provided that the amount allocated is otherwise consistent with the

basic guidelines contained in § 200.414 Indirect (F&A) costs. The indirect costs so allocated must exclude the same and similar costs claimed directly or indirectly as settlement expenses.

Unallowable: The cost of items reasonably usable on the Subrecipient's other work must not be allowable unless the Subrecipient submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the Subrecipient, the Federal awarding agency should consider the Subrecipient's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the Subrecipient must be regarded as evidence that such items are reasonably usable on the Subrecipient's other work. Any acceptance of common items as allocable to the terminated portion of the Federal award must be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

4.6.42 Training and education costs

Definitions: The cost of training and education provided for employee development.

Allowable: All allowable. All costs must be backed by documentation of training agendas.

Unallowable:

4.6.43 Transportation costs

Definitions: Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered.

Allowable: All costs are allowable.

When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. Where identification with the materials received cannot readily be made, inbound transportation cost may be charged to the appropriate indirect (F&A) cost accounts if the Subrecipient follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms and conditions of the Federal award, should be treated as a direct cost.

Unallowable:

4.6.44 Travel costs

Definitions: Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the Subrecipient. Such costs may be charged on an actual cost basis, on a per diem

or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the Subrecipient's non-federally funded activities and in accordance with Subrecipient's written travel reimbursement policies.

In the absence of an acceptable, written Subrecipient policy regarding travel costs, the rates and amounts established under 5 U.S.C. 5701-11, ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter must apply to travel under Federal awards (48 CFR 31.205-46(a)).

Allowable:

Notwithstanding the provisions of the section regarding General costs of government, travel costs of officials covered by that section are allowable with the prior written approval of the Federal awarding agency or pass-through entity when they are specifically related to the Federal award.

Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed by the Subrecipient in its regular operations as the result of the Subrecipient's written travel policy. In addition, if these costs are charged directly to the Federal award documentation must justify that:

1. Participation of the individual is necessary to the Federal award; and
2. The costs are reasonable and consistent with Subrecipient's established travel policy.

Temporary dependent care costs (as dependent is defined in 26 U.S.C. 152) above and beyond regular dependent care that directly results from travel to conferences is allowable provided that:

1. The costs are a direct result of the individual's travel for the Federal award;
2. The costs are consistent with the Subrecipient's documented travel policy for all entity travel; and
3. Are only temporary during the travel period.

Airfare costs that are the basic least expensive unrestricted accommodations class offered by commercial airlines are allowable.

Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are allowable except when such basic accommodations would:

1. Require circuitous routing;
2. Require travel during unreasonable hours;
3. Excessively prolong travel;
4. Result in additional costs that would offset the transportation savings; or
5. Offer accommodations not reasonably adequate for the traveler's medical needs. The Subrecipient must justify and document these conditions on a case-by-case basis in order for the use of first-class or business-class airfare

to be allowable in such cases.

Unless a pattern of avoidance is detected, the Federal government will generally not question a Subrecipient's determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the Subrecipient can demonstrate that such airfare was not available in the specific case.

Unallowable: Travel costs for dependents are unallowable, except for travel of duration of six months or more with prior approval of the Federal awarding agency. See also the section regarding Conferences.

Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are unallowable.

Air travel by other than commercial carrier. Costs of travel by Subrecipient-owned, -leased, or -chartered aircraft include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of such costs that exceeds the cost of airfare as provided for in other parts of this section, is unallowable.

Chapter 5. Charter Service

To be developed.

Chapter 6. Tracking Program Income

Program income is the incidental earning of income by the grantee in the process of executing the operation and services of a federal grant program. The Federal Government encourages grantees to earn income to defray program costs where appropriate. When a grantee earns and uses program income as a part of funding its operation, it must account for and report on such activities. TDOT as the direct recipient and pass through entity of federal awards, has implemented a grantee program income reporting process in an effort to fulfill its responsibility to account for and report on earnings and usage of program income. Grantees of federal awards for which TDOT is the direct recipient are required to complete this quarterly program income reporting. There are two purposes for this process,

1. To provide a tool to collect, reconcile, and report required Federal Financial Report (FFR) information for program income earned under federal grants, and
2. To provide a control to demonstrate the requirement that all program income remain in and be used exclusive for transportation programs.

6.1 Sources of Program Income

There are currently three source types of program income that need to be tracked for compliance reasons due to the limitations of usage based upon source. TDOT has labeled these three source types as Basic, Contract, and USDOT

1. Basic.
 - a. One source of this program income type originates from the use of assets purchased with federal funds. As an example, advertising fees earned from advertisements on a vehicle that was purchased partially with federal funds or rental revenues from a rentor who is renting an extra space in a transit center that was purchased partially with federal funds. The source of this program income is attributed to the federal grant that was used to purchase the asset off of which the program income was earned.
 - b. Another source of Basic program income originates through the operation of the grant program. This type of basic program income includes contracts for public transportation services with organizations other than a human service agencies. The source of this program income is attributed to the current or last used federal grant from which operating expenses are reimbursed at the time the contract revenue is accrued.
2. Contract. This program income originates through the operation of the grant program. This type of contract revenue program income includes contracts for public transportation services only with human service agencies. It also includes University fees that are passed on to the

transit provider. These fees are a voluntary or mandatory fee that a university or similar institution imposes on all its students for discounted or free transit service. The source of this program income is attributed to the current or last used federal grant from which the operating expenses are reimbursed at the time the human service agency contract revenue is accrued.

3. USDOT. This source of program income is either the Basic or Contract source of program income that is received from a customer that uses federal program funding for payment. As an example of when this source type of program income occurs; if a human service agency that is the recipient of federal 5310 program funds contracts for services with a service provider, who provides federal 5311 program services, and pays for those services with the federal 5310 program funds as payment. Due to the definition of this source of income, it is imperative that grantees know the source of program income received from program service customers. USDOT program income is attributed to the federal grant under the same descriptions of Basic or Contract program income, based upon where it originates.

Also note, fare box revenue and proceeds from the sale and disposition of assets are sources of program income. These types of funds are treated under separate rules for their use.

6.2 Use Limitations of Program Income.

Program income can be used to help pay for expenses under the transit program but there are limitations.

1. Program income can be used to reduce the current project cost. Under this use the total project reimbursement request, usually net operating expense (after reduction for fare box revenues), is offset by the program income amount before applying the federal, state and local cost sharing percentages.
2. Program income can be used to meet the local cost sharing requirement. Under this use the total project reimbursement request is not reduced before calculating the federal, state and local cost sharing amounts. The share amounts are calculated first and then the program income amount is used to meet the local share amount requirement. The three source types of program income are tracked because there are differing use limitations for each source.
3. Program income can be used to fund other transportation program service purchases. Under this use program income is not used to offset the grant project cost or used as the local share, but instead to make purchases not included in federal grants. This use of program income is when the grantee makes a purchase and can use all of the program income to fund the purchase. This situation can occur when a grantee runs out of grant funding for operational expenses for a year and then uses program income funding to cover the remaining part of a fiscal year's expenses until the next grantee contract is issued for the following year.

The use of program income limitations depend upon the source of program income.

1. Basic program income can be used to offset current net project expenses and used as the local share. If used to fund the local share, this source of program income can only be used on grants following the grant in which the Basic program income is earned. It can also be used to make other transportation purchases outside of any federal grant.

2. Contract revenue program income can be used to offset current net project expenses and used as the local share. Contract revenue program income, unlike Basic program income, can be used for the local share in the grant in which it is earned. Contract revenue program income can also be used to make other transportation purchases outside of any federal grant.
3. USDOT program income can be used to offset net project expenses and used to make other transportation purchases outside of any federal grant. USDOT program income can not be used as the local share for any grant expense.

6.3 Program Income Reporting

TDOT as direct recipient has an Excel, program income, reporting tool and requires grantees of federal funds to complete the tool quarterly and return it for federal FFR reporting. FFR reporting requires an accrual basis of accounting. Grantees are not required to keep an accrual basis of accounting if they use a different basis of accounting but a reasonable effort must be made to represent the accrual basis. Any balance variance of accrual basis program income to the grantee's financial statement program income balance must be reconciliable. The grantee enters program income revenue and spending transactions into an Excel table. The Excel tool returns pivot table reports formatted to meet federal grant FFR reporting requirements. TDOT will provide grantees with the reporting tool.

Chapter 7. Annual Audit

The annual audit requirement is another compliance element for a Subrecipient, but due to the lengthy definitions and explanations, a separate chapter is dedicated to this topic.

7.1 Audit Requirements

Subrecipients that expend \$750,000 or more in total Federal awards during their fiscal year must have a single audit conducted for that year. If a Subrecipient expends less than \$750,000 in total Federal awards during their fiscal year then it is exempt from this requirement. However, in the case of a Subrecipient that is exempt from the single audit requirement, records must be available for audit by the FTA, state, and the federal Governmental Accountability Office (GAOP). The determination of the amount expended is based upon when the activity related to the federal award occurs.

7.2 Frequency of Audits

Single audits are required annually for each fiscal year that the Subrecipient meets the \$750,000 threshold. The audit report and all reporting must be completed by the earliest of 30 calendar days after the Subrecipient receives the auditor's reports or nine months after the end of the audit period.

7.3 Subrecipient Responsibilities

For fiscal year periods requiring an audit, a Subrecipient must,

1. Prepare appropriate financial statements,
2. Procure the audit,
3. Ensure the audit is properly performed and submitted when due,
4. Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit,
5. Promptly follow-up and take corrective action on audit findings,
6. Complete and submit the required data elements of the data collection form described in 2 CFR Chapter II, Part 200, Appendix X, taken from the reporting package described in 2 CFR Chapter II, Part 200, Section 200.512 (c).

7.4 Procuring the Audit

The Subrecipient must procure audit services using procurement standards. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services,

1. The objectives and scope of the audit must be made clear,
2. The Subrecipient must request a copy of the audit organization's peer review report which

the auditor is required to provide under generally accepted governmental auditing standards (GAGAS),

3. If the Subrecipient is able to recover more than \$1 million in indirect costs during a fiscal year period, the auditor who prepares the indirect cost proposal or the cost allocation plan for the base year or any subsequent year in which the resulting indirect cost agreement or cost allocation plan is used to recover costs may not be used to prepare the annual single audit for the same year.
4. Factors to consider in evaluating proposals for audit services are,
 - a. Responsiveness to the request for proposal,
 - b. Relevant experience,
 - c. Availability of staff with professional qualifications and technical abilities,
 - d. Results of peer and external quality control reviews,
 - e. Price.

7.5 Scope and Objectives of the Audit

The scope and objectives of the audit must be made clear.

1. Scope of Audit

- a. Conducted in accordance with generally accepted governmental auditing standards (GAGAS) and the Audit Manual for Governmental Units and Recipients of Grant Funds published by the Tennessee Comptroller of the Treasury
- b. It must cover the entire operations of the Subrecipient,
- c. The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles.
- d. The auditor must determine whether the schedule of expenditures of federal awards is stated fairly in all material respects in relation to the Subrecipient's financial statements as a whole,
- e. The auditor must perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.
- f. The auditor must plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program and perform testing of internal control as planned. When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing previously described are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness, assess the related control risk at maximum, and consider whether additional compliance tests are required due to ineffective internal control,
- g. The auditor must determine whether the Subrecipient has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs.

- i. The principal compliance requirements applicable to most Federal program are included in the compliance supplement (2 CFR Chapter II, Part 200, Appendix XI),
 - ii. An audit of these principal compliance requirements is required. Where there are changes to these requirements and changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. If a Federal program is not covered in the compliance supplement, the auditor must follow the compliance supplement's guidance for programs not included in the supplement.
- h. The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance,
- i. The auditor must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the Subrecipient, and report as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year,
- j. The auditor must complete and sign specified sections of the data collection form,

2. Audit Report

The audit report must

- a. Include an opinion as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole.
- b. Report on internal control over financial reporting and compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, noncompliance with which could have a material effect on the financial statements. This report must describe the scope of testing of internal control and compliance and the results of the tests, and, where applicable, it will refer to the separate schedule of findings and questioned costs
- c. A report on compliance for each major program and report and internal control over compliance. This report must describe the scope of testing of internal control over compliance, include an opinion or modified opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program and refer to the separate schedule of findings and questioned costs
- d. Contain a schedule of findings and questioned costs which must include the following three components:
 - i. A summary of the auditor's results, which must include:
 - A. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or

- disclaimer of opinion);
 - B. Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
 - C. A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the Subrecipient;
 - D. Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;
 - E. The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
 - F. A statement as to whether the audit disclosed any audit findings that the auditor is required to report,
 - G. An identification of major programs by listing each individual major program; however in the case of a cluster of programs only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required;
 - H. The dollar threshold used to distinguish between Type A and Type B programs, and
 - I. A statement as to whether the Subrecipient qualified as a low-risk Subrecipient.
- ii. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.
 - iii. Findings and questioned costs for Federal awards which must include audit findings
 - A. Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by Federal agency or pass-through entity.
 - B. Audit findings that relate to both the financial statements and Federal awards, should be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.
 - C. Nothing in this Part precludes combining of the audit reporting required by this section with the reporting required by 2 CFR Chapter II, Part 200, Section 200.512 Report submission, paragraph (b) Data Collection when allowed by GAGAS and Appendix X to Part 200—Data Collection Form (Form SF–SAC).

3. Audit Findings Reported

- a. The auditor must report in a schedule of findings and questioned costs
 - i. Significant deficiencies and material weaknesses in internal control over major programs and significant instance of abuse relating to major programs.

The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.

- ii. Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.
- iii. Known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.
- iv. Known questioned costs that are greater than \$25,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this Part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program that is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor must report this as an audit finding.
- v. The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
- vi. Known or likely fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to report publicly information which could compromise investigative or legal proceedings or to make an additional reporting when the auditor confirms that the fraud was reported outside the auditor's reports under the direct reporting requirements of GAGAS.
- vii. Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the Subrecipient

materially misrepresents the status of any prior audit finding.

- b. Audit finding detail and clarity. Audit findings must be presented in sufficient detail and clarity for the Subrecipient to prepare a corrective action plan and take corrective action, and for Federal agencies and the state of Tennessee to arrive at a management decision.

The following specific information must be included, as applicable, in audit findings:

- i. Federal program and specific Federal award identification including the CFDA title and number, Federal award identification number and year, name of Federal agency, and Tennessee Department of Transportation as the applicable pass-through entity. When information, such as the CFDA title and number or Federal award identification number, is not available, the auditor must provide the best information available to describe the Federal award.
- ii. The criteria or specific requirement upon which the audit finding is based, including the Federal statutes, regulations, or the terms and conditions of the Federal awards. Criteria generally identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding findings.
- iii. The condition found, including facts that support the deficiency identified in the audit finding.
- iv. A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.
- v. The possible asserted effect to provide sufficient information to the passthrough entity, Tennessee Department of Transportation, to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria.
- vi. Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable Federal award identification number(s).
- vii. Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. The auditor should report whether the sampling was a statistically valid sample.
- viii. Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and if so any applicable prior year audit finding numbers.
- ix. Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- x. Views of responsible officials of the Subrecipient.

- c. Reference numbers. Each audit finding in the schedule of findings and questioned costs must include a reference number in the format meeting the requirements of the data collection form submission to allow for easy referencing of the audit findings during follow-up.
4. Audit documentation.
- a. Retention of audit documentation. The auditor must retain audit documentation and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or the Tennessee Department of Transportation to extend the retention period. When the auditor is aware that the Federal agency, Tennessee Department of Transportation, or Subrecipient is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and reports.
 - b. Access to audit documentation. Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, cognizant agency for indirect cost, a Federal agency, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this Part. Access to audit documentation includes the right of Federal agencies to obtain copies of audit documentation, as is reasonable and necessary.

7.6 Financial Statements

For a Subrecipient that must prepare financial statements, those financial statements must reflect its,

- a. financial position,
- b. results of operations or changes in net assets,
- c. where appropriate, cash flows,
- d. schedule of expenditures of federal awards, which covers
 - i. List individual Federal programs by Federal agency
 - ii. For a cluster of programs, provide the cluster name,
 - iii. List individual programs with the cluster of programs,
 - iv. Name of pass through entity (Tennessee Department of Transportation, Division of Multimodal Transportation Resources for Transit Grants),
 - v. State of Tennessee project number
 - vi. Amount of Federal awards expended for each individual Federal program by CFDA number,
 - vii. Notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the Subrecipient elected to use the 10% de minimis cost rate.