

Schedule of Federal Audit Findings and Questioned Costs

Mason Transit Authority Mason County January 1, 2012 through December 31, 2012

- 1. Mason Transit Authority's internal controls were not sufficient to ensure only eligible costs were charged to the Formula Grants for Other Than Urbanized Areas grant and did not report all program income received.**

CFDA Number and Title:	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Grantor Name:	U.S. Department of Transportation Federal Transit Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	GCA6837
Questioned Cost Amount:	\$16,468

Description of Condition

Mason Transit Authority received \$844,072 in federal funding during 2012 under the Formula Grants for Other Than Urbanized Areas program. The program provides funding to sustain existing Dial-A-Ride services for general public and special needs persons, to sustain zone and fixed-route service county-wide and to sustain regional transportation connectivity services between Mason County and nearby county transit systems.

The Authority manually calculates costs eligible for grant funding by deducting ineligible costs from total operating costs; however it did not deduct contracted service expenses which are unallowable.

The Authority also received \$7,699 for other contracted services that it did not report as program income.

Cause of Condition

The Authority does not adequately track costs within its accounting system to clearly identify project costs and determine if they are eligible grant expenditures. Also, based on their understanding of information received from the grantor, the Authority staff did not believe that the revenue received from contracted services was program income.

In addition, the Authority did not reduce allowable expenses by the amount of the program income received.

Effect of Condition and Questioned Costs

The Authority charged ineligible costs of \$8,769 to the operating grant and did not report \$7,699 of program income. We are reporting these amounts as questioned costs.

Recommendation

We recommend that the Authority review its method for accounting for reportable grant revenues and costs and ensure that it clearly identifies project costs so only eligible expenses are claimed.

We also recommend that the Authority provide training regarding program income to finance personnel and ensure all revenues from grant funded activities are properly reported as program income.

Authority's Response

MTA has implemented several new processes to better track and properly code revenue and expenses to the correct funding source in the accounting system. First, a new timesheet process has been implemented for employees to document exceptions when working outside of the operating grant funding. The Operations Department will also provide a work schedule of all driving staff detailing which route(s) are in the block of work assigned. This will help the finance department to easily code time and effort to the proper grant source.

The second change is additional lower level codes have been set up in the accounting system for the different grant or program income MTA has so that reports can be ran by the funding source not just the department. Codes at the second level were already in place but have now been expanded to include programs that have been added. This will help determine and define all revenue and cost that are charged or allocated to a program.

Thirdly, when submitting a reimbursement request, all costs will be clearly defined on the back up documentation so it can be easily determined what costs are listed as eligible and which are ineligible. Therefore, during an audit process, an auditor or the grantor on a yearly site visit can see what has been charged against a program, what costs are considered ineligible, and what program income there may be.

MTA will ensure all appropriate staff attend training offered by the grantor at the beginning of each new biennium award.

Auditor's Remarks

We appreciate the Authority's commitment to resolve this finding and thank the Authority for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix A, states in part:

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- j. Be adequately documented.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Subpart C—Auditees

§____.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Washington State Department of Transportation's *Guide to Managing Your Public Transportation Grant*, Chapter 2, states in part:

Eligible Services

The grant agreement with WSDOT outlines the eligible services under each project. It also identifies the funding sources used for the project(s)

and the eligible service modes (fixed route, demand response, etc.). Only services identified in the grant agreement are eligible for reimbursement.

Compliance With OMB Circulars

To comply with the OMB circulars, grantees are required to keep a separate set of accounts (or a section within an accounting system) that clearly identifies project costs and associated revenue.

Code of Federal Regulations, Title 49, states in part:

§ 18.25 Program income.

(a) General. Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.

(b) Definition of program income. Program income means gross income received

by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. "During the grant period" is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

(g) Use of program income. Program income shall be deducted from outlays which may be both Federal and non-Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives).

The Federal/State Operating Grant Agreement between Washington State Department of Transportation and Mason County Transportation Authority, Section 7, states in part:

B. Program Income. The CONTRACTOR shall comply with program Income provisions in 49 CFR § 18.25 or 49 CFR § 19.24, whichever is applicable, and prepare a quarterly report of the gross income, as defined in WSDOT's *Guide to Managing Your Public Transportation Grant*, 2011 version, and any amendments thereto received by CONTRACTOR that is directly generated by the Project activity supported by the funding in this AGREEMENT.

Washington State Department of Transportation's *Guide to Managing Your Public Transportation Grant*, Appendix B, states in part:

Quarterly Program Income

This form collects program income received from a federal grant-funded project. Program income is any revenue (i.e., money), except fares, received by a grantee that is directly generated by a grant supported asset or activity.