STAFF REPORT

MEETING DATE:	**2/26/13**
SUBJECT:	**Amend Financial and Accounting Policies and Procedures Manual**
AGENDA ITEM:	**6-8**
STAFF CONTACT:	**Dave Wallace**

STAFF RECOMMENDATION:

It is recommended that the board of directors amend the Financial and Accounting Policies and Procedures to add several sections related to financial controls.

DISCUSSION:

The attached SRTA Financial and Accounting Policies and Procedures provides improved instructions and controls needed for the day-to-day management of agency activities. Specific changes are as follows:

1. Add financial and accounting policies and procedures amendment policy (§102);
2. Amend policies on compliance with all laws, rules and regulations (§204).
3. Add internal control policies related to compliance, fraud, ethics, education and risk (§207-212);
4. Add policies on records retention and information recovery (§302-303);
5. Add policies on audits, audit adjustments, journal entries and account maintenance (§306, 307, 309 and 311);
6. Add policies on barter transactions and surplus property disposal (§505-506);
7. Add policies on cost accounting and expenses (§601-602 and 604-609); and

The Finance Committee has reviewed these amendments and is in agreement with the revisions.

ALTERNATIVES:

The board of directors may suggest additional modifications or rely on present policies.

OTHER AGENCY INVOLVEMENT:

The Technical Advisory Committee (TAC) concurs with the staff recommendation.

FINANCING:

Adoption of these fiscal policies will have no direct fiscal effect.

Daniel S. Little, AICP, Executive Director

Attachments: Draft Financial and Accounting Policies & Procedures

102. Amending the Financial and Accounting Policies & Procedures

102.1. This manual will be reviewed by the audit committee on an annual basis.

102.2. Amendments to this manual can be made at any time and any amendments require both audit committee and board approval.

200. Internal Control Policies

204. Compliance with all Laws, Rules and Regulations

204.1. All board members, employees and consultants involved with daily operations of the agency will comply with all laws, rules and regulations (including the provisions of California Code Section 87300 et seq., which is incorporated herein by reference, as it exists or may be amended) prescribed by law, code, policy, procedures, contract and grant regulations.

204.2. The agency will not enter into any agreement that creates a risk that all laws, rules and regulations cannot be followed.

204.3. The agency will terminate any grant agreements or vendor contracts in which the grantor or vendor requests or instructs the agency to perform an illegal or unethical act.

207. Fraud

207.1. It is the intent of the board to provide the administrative and financial support for the detection and prevention of fraud and other financial abuse. The board and management recognize the need to maintain an atmosphere conducive to the highest ethical behavior. At no time will the board or management create an environment encouraging unethical behavior. The agency is committed to protecting tax payer dollars and assets from fraud and recovering losses as a result of fraudulent activities. These policies establish steps to combat fraud and to provide procedures to follow when fraudulent acts are suspected.

207.2 The agency will provide ethics training to all employees on an annual basis.

208. Reporting of Ethics Violations, Fraud or Embezzlement

208.1. It is the responsibility of all members and employees to report all violations or suspected violations in accordance with this policy.

208.2. No member or employee who, in good faith, reports a violation of the policy shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This policy is intended to encourage and enable employees and others to raise serious concerns within the agency prior to seeking resolution outside the organization.

208.3. The policy addresses the agency's open door policy and suggests that employees share their questions, concerns, suggestions or complaints with someone who can address them properly. If an employee is not comfortable speaking to their direct supervisor or is not satisfied with the proposal, they are encouraged to speak with the executive director, who has the specific responsibility to investigate all reported violations.

208.4. Any allegations concerning a specific employee should be brought to the attention of someone one level higher than the level of the employee being reported.

208.5. The executive director is responsible for investigating and resolving all reported complaints and allegations concerning violations of the policy and, at his/her discretion, shall advise the audit committee. The executive director has direct access to the audit committee and is required to report to them on any compliance or suspicious activity. The executive director is an advisor (not a member) of the audit committee.

208.6. The audit committee shall address all reported concerns or complaints regarding the agency's accounting practices, internal controls or auditing. The executive director shall immediately notify the audit committee of any such complaint and work with the audit committee until the matter is resolved.

208.7. Anyone filing a complaint concerning a violation or suspected violation of the policy must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation of the policy. Any allegations that prove not to be substantiated and which prove to be made maliciously or knowingly to be false will be viewed as a serious disciplinary matter.

208.8. Violations or suspected violations may be submitted on a confidential basis by the complainant or may be submitted anonymously. Reports will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

208.9. The executive director will notify the sender and acknowledge receipt of the reported or suspected violation within five business days. All reports will be promptly investigated and appropriate action will be taken if warranted.

209. Whistleblower Program

209.1. The Whistleblower Program is established to provide a method for reporting fraud, waste and abuse within the agency. Policy and procedures are established to facilitate the development of internal controls that will provide for the detection, prevention, and reporting of fraud, waste and abuse directed against the agency. It is the intent of this policy to promote awareness of the potential for fraud, waste and abuse throughout the agency, and to provide guidelines and assign responsibility for the development of adequate internal controls and systems of the whistleblower program.

209.2. The law in California protects employees from retaliatory or adverse personnel action for disclosing certain information including, but not limited to, violations of laws and suspected acts of gross mismanagement or gross waste of public funds.

209.3. The term fraud refers to, but is not limited to, any dishonest or fraudulent act to include forgery or alteration of any document; misappropriation of funds, supplies, etc.; improper handling or reporting of money or financial transactions; profiting by self or others as a result of inside knowledge; destruction or intentional disappearance of records, furniture, fixtures or equipment; accepting or seeking anything of material value from vendors or persons providing services or materials to the agency for personal benefit; and/or any similar or related irregularity.

209.4. Waste refers to the unnecessary incurring of costs as a result of inefficient practices, systems or controls.

209.5. Abuse refers to violations and circumventions of departmental or agency regulations which impair the effective and efficient execution of operations.

209.6. The agency treats all information received confidentially, to the extent allowed by law. Any employee, citizen, consultant, vendor, or other interested party who has observed or suspects dishonest or fraudulent activity should notify the audit committee or agency counsel immediately. Persons observing or suspecting dishonest or fraudulent activity should not attempt to personally conduct an investigation related to such activity.

209.7. All documents and/or information obtained in the investigation of complaints received shall be considered in draft form until the official completion of the investigation. At that time the supporting information will be used to prepare the final report on the "Whistleblower Complaint Resolution Form." Upon completion of the form, the draft documents will be returned to the department from which they came, or distributed to the appropriate law enforcement officials for use in further investigation or legal matters. All documents with the exception of the "Whistleblower Complaint Resolution Form" are considered confidential and shall not be disclosed, except as required by law. All public record requests for information should be coordinated with the assistance of agency counsel.

209.8. Procedures for Receiving Complaints:

1) A current or former agency employee or other party who suspects fraud, waste, or abuse, and does not desire anonymity, should:

   a) Contact the audit committee or agency counsel and provide as much detailed information as possible regarding the suspected conduct.

   b) If requested by the audit committee or agency counsel, furnish a detailed written statement, outlining the suspected conduct.

   c) Cooperate with the investigative audit process by providing written statements, interviews, etc.

2) A current or former agency employee who suspects fraud, waste, or abuse, and wishes to remain anonymous, should:

   a) Contact the audit committee or agency counsel and provide as much detailed information as possible regarding the suspected conduct.

   b) The caller, though anonymous, must be willing to share specific information regarding the suspected conduct.

3) A member of the public suspecting fraud, waste, or abuse, is encouraged to contact the audit committee or counsel with specific and detailed information regarding the suspected conduct.

4) Individuals are not required to leave personal information, but they are encouraged to leave a means of contact in order for the whistleblower program to gather additional information about the matter, if necessary.

5) The agency will:

a) Maintain a whistleblower notification process, and attempt to secure as much information as possible from the reporting individual.

b) Complete an independent review of all claims received.

c) Contact law enforcement, as appropriate under the circumstances, for consideration as to their involvement in the case. Determination of the appropriate agency will be considered with the assistance of counsel.

d) Evaluate reported conduct pertaining to any and all departments of the agency, and such other activities/entities engaged in the expenditure of agency funds.

e) Report findings in accordance with the whistleblower policy herein.

f) Work with law enforcement authorities as necessary during the course of the investigative review, and refer applicable findings to appropriate authorities upon completion.

208.9. An individual who reports suspected fraud, waste or abuse who becomes material to a criminal investigation may not be able to remain anonymous. In the event anonymity cannot be maintained an individual reporting fraud, waste, or abuse in good faith will be protected from retaliation.

209.10. In the event of a complaint regarding the executive director or counsel, the audit committee will engage outside counsel

209.11. In the event of a complaint regarding the audit committee or board, the agency counsel will be contacted.

209.12. All complaint resolutions will be documented in the "Whistleblower Complaint Resolution Forms." The forms will be maintained by the audit committee.

209.13. At the discretion of the audit committee, complaint resolutions may be presented to the general board.

209.14. The record retention period for all final "Whistleblower Complaint Resolution Forms" will be in accordance with agency policies and procedures regarding audit work paper retention periods

210. Continuing Education

210.1. The education goals of the agency are:

1) Employees are encouraged to attend training as approved by management and in alignment with the budget at the expense of the agency. The training will consist of technical information related to that employee's assignment as well as training in supervision, management, budgeting and accounting.

2) Continuing education specifically related to an employee's interest and with prior approval from management is acceptable and may be subject to partial or complete reimbursement by the agency.

3) Continuing education not related to an employee's performance must be approved by the board before any reimbursement can be made.

211. Risk

Introduction: The agency is subject to reporting for financial statements purposes, liability and claims from a variety of risks arising from torts, property damage, errors and omissions, injury to employees arising from unsafe conditions or hazards in the workplace, and natural disasters. Risk can also be associated with grantees and vendors.

Risk management for financial statement purposes encompasses identifying risks, evaluating potential losses, and ultimately planning and developing a program to mitigate these risks to an acceptable level or record the liability associated with a program.

The agency's risk management program will identify risks to understand the sources, types, and likelihood of risk. At a minimum, exposure to risks should be identified in the following areas:

- Economic environment- the ability to be paid by governmental agencies on a timely basis and the ability to pay vendors on a timely basis.

- Internal environment- the amount of financial risk that is taken by staff and management. Often associated with an attitude towards rules and regulations.

- Legal environment- any liabilities associated with non-compliance of rules and regulations.

- Operational environmental- the ability to provide sufficient internal controls and appropriate staffing. The ability of the organization to provide adequate staff and resources.

- Political environment- influence or pressure from other governing bodies.

- Social environment (socio-economic composition of the community).

211.1. It is the intent of the agency to maintain accounting and financial reporting risks at an acceptable level. The agency shall minimize liability and control risk by the following:

1) Adhere to all laws, rules and regulations.

2) Prepare proposals that follow the agency's policies.

3) Avoid changes to grants or contracts that do not follow agency policy.

4) Prepare budgets that are reasonable.

5) Enter into agreements with those agencies that have the ability to amend the agreement, those willing to pay a fair price for the agency's services and those that will pay for the agreed upon share of the agency's costs.

6) Setting challenging but reasonable goals for employees, to emphasize ethical behavior instead of creating situations that result in fraudulent financial reporting or other unethical actions.

211.2. The agency shall minimize business and inherent risk by the following:

1) Ensure that all contracts recover all agreed upon costs and that the risk of partial or complete project failure can be covered.

2) Accept grants with insufficient or incomplete funding if the agency reasonably believes it can receive matching grants or otherwise complete the proposed work using other funding sources.

3) Ensure that the agency can achieve the results projected.

4) Accept projects with appropriate cost analysis or feasibility studies completed.

212. Financial Personnel

212.1. Employees and consultants involved with financial records shall be bondable.

212.2 All employees involved with financial records shall possess sufficient training and have knowledge of generally accepted accounting principles.

300. Financial Management

302. Records Retention

302.1. Definitions for records retention are:

1) Active Records – Those records that are referred to at least once a month; a record that remains active until some event occurs to change its status, at which time it has fulfilled its function.

2) Administrative Records – Records commonly found in all offices and typically retained only for a short time period of less than five (5) years. Examples include subject, chronological, budget and policy files.

3) Archival Records – Records with enduring value because they reflect significant historical events, document the history and development of an agency, or provide valuable research data.

4) Audit – An audit of federal awards/grants conducted under the Inspector General Act of 1978, as amended, when the inspector general of a federal agency audits or investigates any program, function, or activity administered by that agency. (A-87, ASMB C-10, Section 6.8)

5) Grant or Services Contract or Agreement – A grant or services contract or agreement with any agency or organization that contains audit or record retention requirements that exceed the timeframe beyond those described in this policy.

6) Non-records – Material not usually included within the definition of records, such as unofficial copies of documents kept only for convenience or reference, working papers, appointment logs, stocks of publications and processed documents, and library or museum material intended solely for reference or exhibition. Also, documents such as rough notes, calculations or drafts assembled or created and used in the preparation or analysis of other documents.

7) Permanent Records – Records that are required in perpetuity, usually identified by statute or other written guidance.

8) Perpetual Records – Records retained for an indefinite period of time and then stored or destroyed after some event takes place. Includes personnel files which are kept until a person leaves the office, policy files kept until the policy is changed, contract files kept until the contract terminates.

9) Program Records – Records that relate to the primary function of the agency in proposal to its daily mission. Includes recorders files and probate records.

10) Public Records – Information relating to the conduct of the public's business prepared, owned, used or retained by any local agency regardless of physical form or characteristics.

11) Records – All papers, maps, exhibits, magnetic or paper tapes, photographic films and prints, and other documents produced, received, owned, or used by an agency, regardless of physical form or characteristics.

12) Records Retention Schedule – A list of all records produced or maintained by an agency and the actions taken with regards to those records. A retention schedule is an agency's legal authority to receive, create, retain, and dispose of official public records.

13) Retention Period – The length of time a record must be retained to fulfill its administrative, fiscal, and/or legal function. Then a record should be disposed of as soon as possible in accordance with an approved schedule.

302.2. The purpose of record retention is to:

1) Provide guidelines to staff regarding the retention or disposal of agency's records; provide for the identification, maintenance, safeguarding and disposal of records in the normal course of business; ensure prompt and accurate retrieval or records; and ensure compliance with legal and regulatory requirements; and

2) Retain vital and important records, regardless of recording media, and those having legal, financial, operational, or historical value to the agency.

302.3. Responsibility of record retention is:

1) Per Section 60201 (d) of the California Government Code, an agency may not destroy or dispose of any record that:

   a) Relates to formation, change of organization or reorganization of the agency;

   b) An ordinance adopted by the agency;

   c) Minutes of any meeting of the legislative body of the agency;

   d) Relates to any pending claim or litigation or any settlement or other disposition of litigation within the past two years;

   e) Is the subject of any pending request made pursuant to the California Public Records Act, whether or not the agency maintains that the record is exempt from disclosure, until the request has been granted or two years have elapsed since the agency provided written notice to the requester that the request has been denied;

f) Relates to any pending construction that the agency has not accepted or as to which a stop notice claim legally may be presented;

g) Relates to any non-discharged debt of the agency;

h) Relates to the title to real property in which the agency has an interest;

i) Relates to any non-discharged contract to which the agency is a party;

j) Has not fulfilled the administrative, fiscal, or legal purpose for which it was created or received;

k) Is an unaccepted bid or proposal, which is less than two years old, for the construction or installation of any building, structure, or other public work;

l) Specifies the amount of compensation paid to agency employees or officers or to the independent consultants providing personal or professional services to the agency, or relates to expense reimbursement to agency officers or employees or to the use of agency paid credit cards or any travel compensation mechanism. However, a record described in this paragraph may be destroyed or disposed of pursuant to this section seven (7) years after the date of payment. Payroll and personnel records include accident reports, injury claims and settlements, medical histories, injury frequency charts, applications, changes and terminations of employees, insurance records of employees, time cards, classification specifications (job descriptions), performance evaluation forms, earning records and summaries, retirements.

2) Per Section 60203 of the Government Code reads Notwithstanding Section 60201, the legislative body of an agency may authorize the destruction of any record, paper, or document that is not expressly required by law to be filed and preserved if all of the following conditions are complied with:

   a) The record, paper, or document is reproduced by any medium that is a trusted system and that does not permit additions, deletions, or changes to the original document in compliance with Section 12168.7 for recording of permanent records or nonpermanent records;

   b) The device used to reproduce the record, paper or document on any medium is one that accurately reproduces the original thereof in all details and that does not permit additions, deletions, or changes to the original document images;

   c) The medium is placed in conveniently accessible files and provision is made for preserving, examining, and using the files.

3) Other

   a) Duplicate records, papers and documents may be destroyed at any time without the necessity of board authorization or copying to photographic or electronic media.

b) Originals of records, papers and documents more than two years old that were prepared or received in any manner other than pursuant to state or federal statute may be destroyed without the necessity of copying to photographic or electronic media.

4) This policy does not supersede any timeframe for audits or record retention specified in any grant or services contract or agreement that exceeds the timeframes shown in this policy.

5) The executive director is authorized by the board to interpret and implement this policy, and to cause to be destroyed any or all such records, papers and documents that meet the qualifications governing the retention and disposal of records.

302.4. Retention Period

- Accounts payable ledgers and schedules: 10 years
- Accounts receivable ledgers and schedules: 10 years
- Audit reports of accountants: Permanently
- Bank statements: 10 years
- Bond records: ledgers, transfer payments, stubs showing issues, record of interest coupon, options, etc.: Permanently
- Cash books: 10 years
- Checks (canceled, with exception below): 10 years
- Checks (canceled, for important payments; i.e., taxes, purchase of property, special contracts, etc. [checks should be filed with the papers pertaining to the underlying transaction]): Permanently
- Contracts and leases (expired): 10 years
- Contracts and leases still in effect: Permanently
- Correspondence, general: 4 years
- Correspondence (legal and important matters): Permanently
- Depreciation schedules: 10 years
- Donation records of endowment funds and of significant restricted funds: Permanently
- Donation records, other: 10 years
- Duplicate deposit slips: 10 years
- Employee personnel records (after termination): 5 years
- Employment applications: 1 year
- Expense analyses and expense distribution schedules (includes allowance and reimbursement of employees, officers, etc., for travel and other expenses: 5 years
- Financial statements (end-of-year): Permanently
- General ledgers and end-of-year statements: Permanently
- Insurance policies (expired): 10 years
- Insurance records, current accident reports, claims, policies, etc.: Permanently
- Internal reports, miscellaneous: 3 years
- Inventories of products, materials, supplies: 10 years
- Invoices to customers: 10 years
- Invoices from vendors: 10 years
- Journals: 10 years
- Minute books of board, including Bylaws and Articles of Incorporation: Permanently
- Overall Work Program budget documents: 3 years
- Payroll records and summaries: 10 years
- Purchase orders: 3 years

- Sales records: 10 years
- Subsidiary ledgers: 10 years
- Time sheets and cards: 5 years
- Voucher register and schedules: 10 years
- Volunteer records: 3 years
- E-mails: active projects-current, completed projects- 5 years

302.5. Other governing documents that outline records retention are:

1) Circular No. A-87 – Cost Principles for State, Local and Indian Tribal Governments. ASMB C-10 - Section 6.7 Implementation Guide for OMB Circular A-87. The Common Rule issued pursuant to OMB Circular A-102 covers most policies associated with records to be retained and/or disclosed by a governmental unit receiving federal assistance funds. Section .42 of that rule requires that all financial and programmatic records, supporting documents, statistical records, and other records of recipients and sub recipients be retained. Section .36 (i) (10) of the rule covers the record retention requirement for consultants under grants and their sub-consultants. Generally, records must be retained for three (3) years from the submission date of the final financial report for that funding period. However, if any litigation, claim, negotiation, audit, or other action involving the records has been initiated before the three-year retention period has expired, the records must be retained until the action is completed and all issues which arise from it have been resolved, or until the end of the regular three-year period, whichever is later.

2) Circular No. A-133 – Audits of States, Local Governments, and Non-Profit Organizations. Subpart C- Auditees, Section 320. (g) Report retention requirements. Auditees shall keep one copy of the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (e) of this section on file for three (3) years from the date of submission to the Federal clearinghouse designated by OMB. Pass-through entities shall keep sub recipients' submissions on file for three (3) years from date of receipt.

3) Circular No. 74-4 – Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government. Section I – General Information, Retention of Records and Documentation for Audit – The Federal retention and custodial requirements for records are contained in Attachment C, "Uniform Administrative Requirements for Grant-in-aid to State and Local Governments" (FMC 74-7). In general, it requires that financial records, supporting documents, statistical data, and all other records pertinent to Federal programs be retained for a period of three (3) years. The retention period for cost allocation plans submitted for approval to the cognizant Federal agency starts from the date of submission. The retention period for cost allocation plans which are prepared and retained by the local government, starts of the last day of the fiscal year (or other accounting period) covered by the plan.

4) Grant or Services Agreement or Contract. Individual grant or service agreements or contracts may extend the timeframe for audits or record retention. If the timeframe specified in a grant or service agreement or contract exceeds the timeframe in this policy, the controlling timeframe is the one specified in the grant or services agreement or contract.

303. Information Recovery

303.1. The loss of information in a disaster is covered under separate policies for information technology.

306. Audits

306.1. The agency is required to have an independent audit of their financial statements performed in accordance with appropriate professional auditing standards. The audit shall be completed within one hundred eighty days (180) days after the end of its fiscal year. The annual audited financial report could also be required to include a “single audit” in accordance with OMB Circular A-133.

306.2. The audit shall be performed by an independent certified public accountant.

306.3. The agency shall follow the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) in recommending that a consolidated annual financial report (CAFR) be issued as a best practice for financial reporting. The CAFR expands upon the basic financial statements that are required by generally accepted accounting principles by including additional financial information broken down into three sections: introductory, financial, and statistical.

The introductory section provides general information on the government’s structure, services and environment.

The financial section includes the basic financial statements and notes as well as additional information on all individual funds not reported in the basic financial statements.

The statistical section provides trend data and non-financial information that assists in the assessment of the government's financial condition.

306.4. The agency shall strive to participate in the GFOA Certificate of Achievement in Financial Reporting Program designed to encourage and assist local governments to go beyond the minimum requirements of GAAP to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure.

306.5. At the conclusion of the audit, the auditor shall discuss all comments that will be included in the audit report with management, each member of the governing body, and each member of an audit committee charged with governance. In addition, the auditor shall notify each member of the local government’s governing body if there is deteriorating financial conditions that may cause a financial emergency condition.

306.6. The agency’s proposal to the audit findings, including corrective action to be taken, must be filed with the agency’s governing body within thirty (30) days after delivery of the audit findings. In addition, the audit findings and proposals must be incorporated in the audit report package.

306.7. The auditor selection process shall follow the regular procurement process and bid requirements including:

- Establish factors to be used in the evaluation of audit services.
- Publicly announce requests for proposals.
- Provide interested firms with requests for proposals.
- Evaluate proposals provided by qualified firms.

306.8. Annual Transportation Development Act (TDA) Compliance and Fiscal Auditing Agency Annual Audits

Introduction: Pursuant to Public Utilities Code Section 99245 the transportation planning agency shall be responsible to ensure that all claimants to whom it directs the allocation of funds shall submit to the planning agency an annual certified fiscal audit conducted by an entity other than the claimant.

The agency has previously incorporated the claimant's annual TDA fiscal and compliance audits into the agency audit. This policy will allow for the claimants to include the TDA audits within the scope of their own annual fiscal audits.

1) If a claimant determines that they will include the TDA fiscal audit within the scope of their annual fiscal audit, the claimant must notify the agency no later than June 1 of each calendar year of their determination. The agency will provide a document to the claimant prior to June 1 requesting that the claimant verify if the claimant will include the annual TDA audit, or if the audit will be included in the agency annual audit.

2) If the claimant requests that the agency include the TDA fiscal audit within the agency annual audit, the agency requests that one point of contact for all proposals, documents and/or data be appointed to the audit.

3) A report on the audit shall be submitted to the agency within 180 days after the end of the fiscal year. The agency may grant an extension of up to 90 additional days as it deems necessary.

4) The claimant's annual TDA audit must comply with Article 5.5 of the TDA Statues and California Code of Regulations. The claimant must provide a separate report and the audit report shall include a certification of compliance with the TDA.

5) Allocations may be delayed to any claimant that is delinquent in its submission of a fiscal and compliance audit report.

6) A claimant determines that the agency is to include their audit within the agency annual audit, the following documentation must be provided to the agency no later than 30 days from the end of the claimant's fiscal year end.

    a) General ledger detail for the audit period.

    b) Reconciliation of cash balances. This reconciliation should agree to the agency's general ledger with adjustments to agree to the amount per the trial balance.

    c) General ledger detail for the period July 1 to September 30 subsequent to the audit period.

    d) Budgets for revenues and expenditures of TDA funds for the fiscal year

    e) Audited financial statements for the current year

    f) Documentation to support expenses funded by TDA disbursements.

    g) Additional requests as needed by external auditors

306.09 The procedures shall be as follows:

1) Prior to fiscal year end the agency will provide documentation for claimant to confirm if the claimant or the agency will include the TDA audit within the scope of their annual fiscal and compliance audit.

2) If claimant provides TDA audit, claimant is to provide a certification of compliance with the TDA no later than 180 days after the close of the fiscal year. A period of no longer than 90 days may be granted to the claimant by the transportation agency if deemed necessary.

3) If the agency is to include the TDA audit within their annual audit, requested documentation must be provided to the agency no later than 30 days after the claimant's fiscal year end.

4) Claimant certified audited financial statements shall be provided to the agency no later than 180 days after end of fiscal year, or no later than 270 days from end of fiscal year if an extension has been allowed.

5) Allocation for claimant may be delayed if delinquent in submission of their annual fiscal and compliance audit, or if claimant fails to provide requested documentation within the allotted time period.

307. Final Audit Adjustments

307.1. The agency will record agreed-upon audit adjustments and reconcile net assets on the accounting records to the audited financial statements.

309. Journal Entries

309.1. The accountant will prepare monthly journal entries, when necessary, for the agency.

309.2. Non-reoccurring journal entries must be approved by the executive director.

311. Account Maintenance

311.1. The accountant shall maintain the detail and documentation on all general ledger accounts on a monthly basis.

500. Revenue

505. Barter Transactions

505.1. The agency will record all barter transactions as revenue and corresponding expense at the fair market value of the trade.

505.2. The agency will prepare a contract for barters in excess of $1,000 in one fiscal year.

506. Surplus Personal Property Disposal

506.1 Surplus personal property with commercial value will be disposed of in a cost effective and efficient manner that achieves the highest net resale proceeds for the agency. This policy does not address the surplus of real property. Surplus property with little or no commercial value or for the disposal and sales efforts are judged more costly than estimated net proceeds, may be transferred, donated, or eventually disposed of through salvage contracts or other cost effective and efficient means. Items that are broken, unusable or have no commercial, salvage or donation value may be declared as "trash" and efficiently and safely disposed of as such.

506.2 Agency employees and their immediate family are restricted from purchasing the surplus items due to conflict of interest concerns.

506.3 Definitions

Surplus – Any agency personal property and/or asset that is no longer needed now or in the foreseeable future or that is no longer of value or use to the agency. This includes items purchased by the agency and found items.

Estimated Surplus Value – The estimated amount of money an interested party will be willing to pay the agency for the property. This can be determined through an estimate, an official appraisal, an offer from another agency, Kelly Blue Book value or other sources available to the responsible department.

Eligible Purchaser – Any public entity, non-profit organization, private organization or the general public is eligible to purchase surplus products unless otherwise noted in this policy.

506.4 Procedure

1) The agency will complete the surplus request form including a complete description of the item, location, condition and estimated fair market value. The employee requesting that the item be declared surplus and executive director must sign the completed form.

2) Once the form is approved, the requesting department will coordinate the notification to interested parties and dispose as follows:

a) Auction the item on eBay (or equivalent), list on web sites such as Craig's List (or equivalent) will be responsible for all costs associated with this option, and must provide budget numbers for this purpose.

b) Sell the item through a sealed-bid process.

c) Trade the item in for new replacement equipment.

d) Send the item to the State surplus program.

e) Donate the item to a non-profit that serves or benefits the low income persons or persons with disabilities. The organization must complete a donation form and must provide their mission statement, and proof of their non-profit status and confirmation that they do not discriminate in provision of services.

f) Properly discard the item if the item is broken, unusable, and/or hazardous.

506.5 Documentation and pictures must be provided for an item to be disposed of. Discarding the item(s) is the last option to be used unless the item is broken, unusable or has no commercial, salvage or donation value and/or the agency and the agency has exhausted all other options for disposal.

506.6 If the item is sold or transferred, the receiving individual or party must sign an "As-Is/Where-Is" Statement and/or Liability Waiver. If the agency is responsible for the pick up or transfer of the item, it must obtain the signature of the individual or party receiving the item on the form and forward the form to accounting for its files.

506.7 If the item is sold the proceeds will be deposited into the fund that accounts for the asset within 24 hours of the transaction. Checks for surplus items are to be made payable to the agency.

506.8 Vehicles- For vehicles being surplused, the requesting department shall attach to the surplus request form a printout from Kelly Blue Book with the estimated value of the vehicle. The agency will set the starting bid price at the private party value as shown in Kelly Blue Book. The agency logos and other markings identifying vehicles as agency property shall be removed prior to sale.

600. Cost Accounting/Expenses

601. Consistencies in Cost Accounting

601.1. The agency will use the cost guidelines as found in OMB Circular A-87.

601.2. The cost guidelines will be consistently applied to all grants and activities.

602. Allowable/Unallowable Costs

602.1. In the performance of its mission, agency utilizes a number of funding sources including grants provided by the federal government. In order to utilize these funds for the reimbursement of costs, the agency is required to follow 2 CFR Part 225, "Cost Principles for State, Local, and Indian Tribal Governments" when accounting for expenditures.

602.2. The agency charges costs that are reasonable, allowable, and allocable to an award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to any awards.

602.3. Segregating Unallowable from Allowable Costs- The following steps shall be taken to identify and segregate costs that are allowable and unallowable with respect to each award:

1) The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.

2) Accounting personnel shall be familiar with the allow ability of costs provisions of 2 CFR Part 225, "Cost Principles for State, Local, and Indian Tribal Governments," particularly:

a) The list of specifically unallowable costs found in 2 CFR Part 225, Attachment B (Selected Items of Cost), such as alcoholic beverages, bad debts, contributions, fines and penalties, lobbying, etc.

b) Those costs requiring advance approval from federal agencies in order to be allowable in accordance with 2 CFR Part 225, Attachment B, such as foreign travel, equipment purchases, etc.

3) No costs shall be charged directly to any award until the cost has been determined to be allowable under the terms of the award and/or 2 CFR Part 225.

4) For each award, an appropriate set of general ledger accounts (or account segments) shall be established in the chart of accounts to reflect the categories of allowable costs identified in the award or the award budget.

5) All items of miscellaneous income or credits, including the subsequent write-offs of un-cashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to an award or to activity associated with an award. The reduction in expenditures shall be reflected in the year in which the credit is received (i.e., if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit but rather it will be posted in the current period).

602.4. Criteria for Allowability- All costs must meet the following criteria from 2 CFR Part 225, Attachment A, in order to be treated as allowable direct or indirect costs under an award:

1) The cost must be "reasonable" for the performance of the award, considering the following factors:

a) Whether the cost is of a type that is generally considered as being necessary for the operation of the agency or the performance of the award;

b) Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, federal and state laws and regulations, and the terms and conditions of the award;

c) Whether the individuals concerned acted with prudence in the circumstances;

d) Consistency with established policies and procedures of agency, deviations from which could unjustifiably increase the costs of the award.

2) The cost must be "allocable" to an award by meeting one of the following criteria:

a) The cost is incurred specifically for an award;

c) The cost benefits both the award and other work, and can be distributed in reasonable proportion to the benefits received; or

d) The cost is necessary to the overall operation of agency, except where a direct relationship to any particular program or group of programs cannot be demonstrated.

3) The cost must conform to any limitations or exclusions of 2 CFR Part 225 or the award itself. The "Cost Principles for State, Local, and Indian Tribal Governments," 2 CFR Part 225 and Attachments A and B are included as references.

4) Treatment of costs must be consistent with policies and procedures that apply to both financed activities and other activities of the agency.

5) Costs must be consistently treated over time.

6) The cost must be determined in accordance with generally accepted accounting principles.

7) Costs may not be included as a cost of any other financed program in the current or prior periods.

8) The cost must be adequately documented.

602.5. Direct Costs- Direct costs are costs that are incurred/performed primarily as a service to clients or the general public, when significant and necessary to the organization's mission. These costs are generally incurred for a specific objective and can be easily identified with a particular project (fund/contract) or activity. The agency identifies and charges these costs exclusively to each award or program receiving the benefit.

602.6. Each invoice shall be coded with the appropriate account reflecting which program received direct benefit from the expenditure. Invoices are approved by the appropriate project manager and reviewed by the accountant and the executive director.

602.7. Time sheets or personnel activity reports are also submitted on a regular basis, reflecting employees' work and which programs directly benefited from their effort. Time sheets or personnel activity reports shall serve as the basis for charging salaries directly to federal awards and non-federal functions.

602.8. Equipment purchased for exclusive use on an award and reimbursed by the agency shall be accounted for as a direct cost of that award (i.e., such equipment shall not be capitalized and depreciated).

602.9. Indirect Costs- Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular grant or program but are necessary to the operation of the organization and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Indirect costs may be allocated to benefiting grants through the use of an indirect cost rate.

602.10. Indirect Cost Rate- The agency maintains an annual indirect cost proposal. Each year a new indirect cost proposal is prepared and submitted with documentation to Caltrans, Division of External Audits, for approval. The indirect cost rate approved is used when determining the overhead applied to each federal award.

602.11. Types of expenditures normally included in the indirect cost pool are:

1) General administration

2) Salaries and benefits of the executive officers, fiscal, human resources and administrative personnel

3) Depreciation of equipment and buildings

4) Office rent and maintenance

5) General office repairs and maintenance

602.12. These rates are submitted to agency's cognizant agency and will be binding on all other federal agencies and their contracting officers unless specifically prohibited by statute.

602.13. The following costs are unallowable as part of the indirect cost base (administrative cost center):

1) Interest

2) Equipment of $5,000 and greater except with prior approval

3) Building improvements

4) Building renovations

5) Compensation for the use of buildings and other equipment may be made through use allowances or depreciation.

602.14. Accounting for Specific Elements of Cost- the agency shall utilize the following methods of charging specific elements of cost to federal awards as direct or indirect costs:

1) Salaries and Wages – Salaries and wages shall be charged directly and indirectly based on the functions performed by each employee, as documented on each employee's timesheet (or personnel activity sheet), as follows:

a) Direct costs – The majority of the employees of agency charge their time directly since their work is specifically identifiable to specific grants or other (non-federal) programs or functions of the agency.

b) Mixed charges – The following employees may charge their salary costs to both direct and indirect activities:

c) Executive director

d) Executive assistant

e) Senior accountant

2) Compensated absences (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. The costs associated with compensated absences will be recorded as an indirect cost.

3) Employee Benefits – The agency incurs costs for the following statutory and non-statutory employee benefits:

a) Federal Insurance Contributions Act (FICA)

b) Unemployment insurance

c) Worker's compensation

d) Health insurance

e) Contributions to pension plan

f) Accrued vacation fringe

The agency will charge each such benefit cost directly and indirectly in the same proportion as each individual's salaries and wages.

4) Occupancy Expenses – Monthly rent expense and related pass-through expenses shall be allocated indirectly.

5) Utilities – Utilities costs include electricity and water. Such utilities costs shall be charged indirectly.

6) Supplies and Materials – To the maximum extent possible, office supplies and materials are charged directly to the grant or program/function that uses the supplies or materials. All supplies and materials used by staff who are engaged in indirect activities shall be charged indirectly.

7) Postage and Shipping – To the maximum extent possible, postage and shipping costs shall be charged directly to the grant or program/function that benefits from the postage or shipping costs.

8) Photocopying and Printing – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost or depreciation expense of the copier. Photocopying costs shall be charged directly and indirectly based on the activity. All printing costs are charged directly to the benefiting grant or program/function when possible.

9) Communications – Communication costs include the costs of local telephone service and long distance telephone charges, including charges associated with telephone calls, facsimile transmissions, and Internet connections. These costs are charged indirectly.

10) Outside Services – The agency incurs outside service costs for its annual audit, legal fees, etc. Outside service costs shall be charged as follows:

11) Audit fees – Cost of the financial statement audit and any preparation applicable reports shall be charged as a direct cost or an indirect cost.

12) Legal fees – Legal fees shall be charged directly to the program/work element that benefits from the services. Legal fees that are not identifiable with specific direct grants or work elements shall be charged indirectly

13) Consultants – Costs associated with consultants shall be charged directly to the program/work element that benefits from the services. Fees that are not identifiable with specific direct grants or work elements shall be charged indirectly.

14) Insurance – To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly. All insurance costs that are not identifiable with specific direct grants or work elements (such as the agency's general liability coverage) shall be charged indirectly.

15) Credits – The applicable portion of any credits resulting from cash discounts, volume discounts, refunds, write-off of stale outstanding checks, trade-ins, scrap sales or similar credits shall be credited directly or indirectly in the same manner as the purchase that resulted in the credit.

The above costs are typical examples of other expenses which may be used as a guide.

603. Open.

604. In-Kind Matching/Contributed Services and Materials

604.1 In the performance of its mission, the agency utilizes a number of funding sources including grants provided both by the state of California and by the federal government. Many of these fund sources require the agency to provide a "match" in funding from local sources either as a cash match or from in-kind services.

604.2 The agency is required to establish local match documentation procedures. This policy applies to all:

1) Programs that establish matching by agency or by partner entities (sub-recipients) receiving funds by contract with the agency.

2) New contracts and amendments initiated after the effective date above.

604.3 Local Match Authorization and Approval Process

1) The agency is required to submit an annual plan and budget that includes a description and the source of the match (i.e., third party in-kind contributions, board member volunteer hours, and local cash) for its own as well as its sub-recipient grants that require local match.

2) Program managers must:

a) Create a plan and budget including input from local entities that includes a description of and the source of funds for local match.

b) Review and, as appropriate, approve the agency's annual overall work program and transportation improvement programs. Program managers are responsible for knowing the specific federal matching regulations related to the federal funding source.

c) Determine how the local match will be accounted for by agency. For example, a local entity may make cash payment for their share of a federal program or the local entity may certify they expended funds towards the nonfederal share of allowable expenditures.

d) Verify that the agency's financial reporting system tracks matching funds at a level to support the use of funds that meets the level of documentation required by federal or state statutes.

e) Verify the local match was not used to meet match requirements of more than one federal award.

f) Verify that federal funds are not used as local match unless specifically authorized by law and the agency receives written approval from the federal the agency supplying the match.

g) Evaluate and approve only those contracts or inter-local agreements that satisfy all local matching requirements.

3) The agency programs must require sub-recipients to complete and submit a local match certification form prior to submitting requests for reimbursement (RFR).

604.4 Third Party In-Kind Contributions- All in-kind contributions and valuation methods must be documented. For example, if an individual's service or time is treated as an in-kind contribution for the match, this must be documented as support for the in-kind contribution. For an individual's time provided by an organization, the calculation of the wages and benefits must be based on the same method that is used by the donating organization in paying the individual. If Fair Market Value (FMV) is used for equipment or facilities, the valuation method must be documented.

The following are examples of third party in-kind contributions and the valuation method:

1) Volunteer services provided by individuals. These are based on fair market value of the service provided. The value is not based on the potential or actual earning ability of the volunteer who performed the service. For example, if a landscaper assists with landscaping, the value of the lanscaper's in-kind time cannot be based on the landscaper's hourly billing rate.

2) Services provided by employees of another organization. These are the actual cost incurred by the employing organization exclusive of fringe benefits. The value cannot include organizational overhead.

3) Donated supplies. These are based on FMV for the same products. The valuation must take into consideration the volume of items and the condition of the items.

4) Donated equipment. If the title to the asset does transfer, then FMV needs to be determined. However, authorization must be obtained from the awarding agency if the entire FMV can be used as an in-kind contribution or if only the standard use allowance may be used. If the title of the asset does not transfer, then the FMV of renting/leasing such asset may be used as an in-kind contribution.

5) Donated facilities. These must be treated similar to that of donated equipment. Facility structures may be considered in-kind contributions if the structure is available to others to rent/lease and is not used as part of the organization's daily operations.

a) For example, a non-profit organization owns a conference facility that is rented to the public.

b) If the non-profit donates the conference facility for program events, the FMV rental cost can be considered an in-kind contribution. However, if the nonprofit has a meeting room within that facility that they use to discuss program events, the meeting room cannot be considered an in-kind contribution.

604.5 Accounting Procedures

1) Accounting for local match by cash receipt

2) After the local entity sends in the non-federal matching funds to the agency in support of its local match requirement, the agency records the receipt using a local revenue source.

3) Accounting for Local Match by Certification (on agency records)

a) The project manager verifies that the local entity has the required match to support their Request for Reimbursement (RFR).

b) The agency is the cognizant agency for the federal grant and reports the total expenditures on its federal claim (RFR).

c) Obtain written acknowledgement of the contribution including:

1) Name and signature of donor

2) Date and Location of donation

3) Detailed description of item/service

4) Project for which the service was provided

5) Estimated value

6) Certification of the eligibility and non-federal nature of contribution

7) Determine if contribution was obtained with or supported by federal funds, if so provide documentation

8) Hourly/billable rate attributable to federal funding

9) Hourly/billable rate

4) The agency shall maintain adequate documentation to support the amounts claimed as match, for example:

a) Signed & dated time sheets filled of the donor

b) Donation form filled out by donor

c) Receipts for supplies or services donated by a partner with a detailed description of the item(s) or the service (s)

d) Record donation and valuation of item in detail

e) Enter into the general ledger as income and expenditure

5) Remember to link the in-kind contribution (if used as match for your federal funds) to an action or project mentioned specifically in your annual work plan.

6) The values of third party in-kind contributions may not count towards satisfying a cost sharing or match requirement of a grant award if they have been or will be counted towards satisfying the matching requirement of another federal grant agreement or any other award of federal funds.

7) The value of third party in-kind contributions may be accepted as the match for all grants requiring local match and may be on either the total scope of work of the proposed project or specific planning activities or tasks of the project. The use of third party in-kind contributions must be identified in the original scope of work of the grant application, the project specific work element of the approved overall work program, and future amendments. The Caltrans Office of Regional and Inter-agency Planning (ORIP) must approve the use of third-party in-kind contributions in advance, prior to approval of the grant award.

8) The Caltrans District 2 Office of Planning and Local Assistance and the grant recipient are responsible for ensuring that the following additional criteria are met:

9) The third party providing the goods or services agrees to allow the value of the goods or services to be used as the match.

10) The goods or services provided by the third party is an eligible transportation planning activity that benefits and is specifically identifiable to the federally funded work.

11) The third party goods or services are provided during the period to which the matching requirement applies.

12) The third party in-kind contributions are verifiable from the records of Caltrans and the grant recipient and these records show how the value placed on third party in-kind contributions were derived.

13) If the total amount of third party expenditures at the end of the program period is not sufficient to match the total expenditure of federal funds by the grant recipient, the recipient will need to make up any shortfall with its own funds. CFR 710.203, 710.505, and 710.507).

14) The costs or value of third party donations counting towards satisfying the non-Federal match requirement must be verifiable from the records of the grantee or sub grantee [reference 49 CFR 18.24 and 2 CFR 225]. The grantee retains responsibility for the proper oversight of services donated by third parties and/or performed by its sub grantees [reference 23 U.S.C. 106(g) (4) and 49 CFR 18.37 and 18.40, and 49 CFR 19.51].

605. Disposals of Assets

605.1. Disposal of assets will be recorded as a gain or loss as per GASB 34.

606. Interest Expense

606.1. Interest will be accrued monthly.

606.2. Interest on construction will be capitalized.

607. Premiums and Discounts

607.1. Premiums and discounts on the issuance of debt or in the purchase of securities will be amortized over the life of the issue, if material.

608. Bid and Proposal Costs

608.1. Bid and proposal costs that are not an approved grant cost will be expensed as administration costs.

609. Credits

609.1. Refunds and rebates to the agency should be recorded as miscellaneous revenue.