

Charlottesville-Albemarle
Regional Transit Authority Plan

Appendix K

In-Kind Cost Recordkeeping

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1 Executive Summary

The creation of a Regional Transit Authority (RTA) in Charlottesville-Albemarle County would change the way in which transit service is operated and funded in the area. Transit service would no longer be operated by the City with the County government contributing to the cost. Rather all service would be operated by the new RTA. The RTA and its member jurisdictions would be responsible for providing funding for transit operations using a combination of local, state and federal sources. The local contributions can be in the form of cash or in-kind services. Many times in-kind services are preferred by local governments as they can be absorbed within current staffing ceilings and result in effective leveraging of local resources.

When in-kind services are provided as part of a jurisdiction's contribution to funding a transit agency, it is necessary to establish a proper dollar value for the contribution. This is necessary not only to permit taking credit for in-kind services as the local match for a federal transit grant requires complying with the requirements of the grant programs of the Federal Transit Administration (FTA), but also for demonstrating to other local participants that the jurisdictions financial obligations are being met.

Many different grants are available from the FTA to fund the operating and capital costs of providing transit service. This technical report documents the requirements for managing and administering these grants as laid out in Federal Office of Management and Budget (OMB) circulars and other FTA regulations, with emphasis on the requirements for recordkeeping related to in-kind services. Specific criteria detail what types of costs the FTA grant programs can cover and which costs are unallowable. The relevant information for RTA is contained in OMB Circulars A-87, A-102 and A-110 which are summarized in this report. Developing an auditing and recordkeeping system that complies with the OMB circulars should also be sufficient to justify the dollar value claimed for the services. However, the participating jurisdictions need not follow all the FTA procedures for their own cost allocations purposes. The jurisdictions could, for example, agree that certain costs not allowable by FTA as local match, could apply for determining local contributions to operation of the Transit Authority.

There are several other reporting requirements that are associated with the receipt of FTA grants. The requirements of the National Transit Database (NTB) and other programs are detailed in this report. Finally, a sample methodology is shown that details how the Charlottesville and Albemarle County could keep records in order to claim credit for in-kind services.

2 Introduction

The creation of a Regional Transit Authority (RTA) in Charlottesville-Albemarle County would change the way in which transit service is operated and funded in the area. Transit service would no longer be operated by the City with the County government contributing to the cost. Rather all service would be operated by the new RTA. The RTA and its member jurisdictions would be responsible for providing funding for transit operations using a combination of local, state and federal sources. The local contributions can be in the form of cash or in-kind services.

An example of an in-kind service would be for the RTA to use human resources staff from the City for hiring and other related employee functions. The value of the time spent by City staff on RTA related matters represents an in-kind service that can be applied in lieu of cash both to satisfy the City's obligation to contribute to the costs of the transit Authority and to provide support for amounts claimed as local match to federal grant funds. However, in order to demonstrate the values of the services and to support any claim for such services as an in-kind match, there must be formal procedures in place to capture and record the time and resources devoted to RTA matters, as opposed to other city business, and to properly determine and allocate the cost of those services – including both direct salary of involved employees and the overhead costs related to those services. Several circulars from the Office of Management and Budget (OMB) address the cost allocation procedures that must be used by state, local and non-profit agencies receiving grants from federal agencies, including the Department of Transportation (DOT) and FTA. There are additional accounting requirements developed by the FTA for use specifically by transit agencies. This report details these requirements and develops recordkeeping and cost allocation plans for the proposed Charlottesville RTA that adhere to all of these requirements. In addition, in order to receive funding from FTA, transit agencies must provide detailed operating information to the Nation Transit Database (NTD) annually. The reporting requirements for the NTD programs are also discussed in this report.

3 Financial Management

Most FTA grant programs require that some percentage of project funding be provided from participating localities in the form of a local match to the federal contribution. This contribution does not have to be in cash; services provided locally can be used as a form of in-kind contribution to meet this local matching requirement. If some City and/or County services continue to support transit services after the introduction of a Regional Transit Authority in Charlottesville and Albemarle County, these services could be claimed as part of the local match. In order to get credit for these services, the City and/or County, in addition to the Transit Authority itself must adhere to specific accounting and financial management procedures detailed by the federal Office of Management and Budget (OMB) and FTA.

In addition, it is proposed that the Transit Authority establish procedures for allocating the costs of operation of the Transit Authority among the participating jurisdictions - initially the city of Charlottesville and Albemarle County. Demonstrating the value of any in-kind services contributed by either party will require appropriate supporting justification. This justification will consist of adequate records and a statement that the records are accurate and that the indirect cost rates claimed are correct. The justification could be in the form of an audit. However, the participating jurisdictions need not follow all the FTA procedures for their own cost allocations purposes. The jurisdictions could, for example, agree that certain costs not allowable by FTA as local match, could apply for determining local contributions to operation of the Transit Authority.

All grant applications to the FTA require a detailed analysis of the costs and benefits associated with the transit program, as indicated by OMB Circular A-102¹. This document governs the use of grants and cooperative agreements between the federal government and state and local government agencies, including the proposed Regional Transit Authority in Charlottesville and Albemarle County. During development of this cost/benefit analysis, all costs related to transit service, including those incurred by other governmental entities must be included. The financial management systems of each participating entity (the City and County governments) must therefore meet the criteria set out by FTA and OMB.

OMB Circular A-110² details the administrative requirements for grantees receiving money from federal agencies. The rules in this document include standards for the financial management system for any recipient of a federal grant (including FTA programs). These requirements primarily aid in the administration and oversight of federal grant programs and include the following:

1 <http://www.whitehouse.gov/omb/circulars/a102/a102.html>
2 <http://www.whitehouse.gov/OMB/circulars/a110/a110.html>

- Financial results of all federally sponsored projects or programs including the status of all monies received.
- Identification of the source (specific grant program) and uses of funds for federally-sponsored activities.
- Comparison of actual expenditures with budgeted amounts for each grant award, including connections to the unit costs of providing service.

All programs funded by a federal grant must be monitored to identify if the service is meeting the goals and objectives stated in the grant application. Financial Status Reports must be submitted to FTA on a periodic basis to identify the status of all grant monies. Further requirements for a grantee's financial management system are detailed in Common Rule, 49 CFR part 18.20(b).

4 Cost Principles

OMB Circular A-110 requires a cost allocation plan from every grant recipient that details the costs of all services, construction and equipment that are necessary for the operation of the transit service. These plans provide the detailed financial information that is used to determine how much grant money a transit agency will receive in the future and to measure the success of the funded programs. This plan must detail all of the costs incurred in the operation of transit service, including services provided or operated by other governmental agencies. As part of the cost allocation plan, performance data (such as total revenue hours) must be related to financial data (such as total cost) in order to develop unit costs (such as total cost per revenue hour) for provision of transit service. OMB Circular A-87³ provides the detailed cost principles that must be applied to a cost allocation plan, including the allowable costs and methodology to account for indirect costs.

4.1 Allowable Costs

The types of expenses that can be paid for by FTA grants are limited by Federal regulations; however a wide range of services, equipment and materials are eligible to be funded by FTA grants as detailed in Attachment B of Circular A-87. Table 1 highlights the major types of costs that are allowable or unallowable as part of a cost allocation plan submitted to FTA. More details about each cost category can be found in the circular itself, including exceptions to these rules.

As evidenced in Table 1 and the details found in OMB Circular A-87, the majority of regular costs incurred by a government agency during the provision of transit can be included in the cost allocation plan. This includes the costs of vehicles, support staff, direct operations, facilities and real property. However, some costs are unallowable and cannot be included. It is important to note that these unallowable items also cannot be included as part of the local match in the grant proposal.

3 <http://www.whitehouse.gov/OMB/circulars/a087/a087-all.html>

Table 1: Allowable and Unallowable Costs

Allowable Costs	Unallowable Costs
Accounting	Alcoholic beverages
Some advertising & public relations (depends on how the grant is written)	Defense and prosecution of criminal and civil proceedings, and claims
Advisory councils	Contingencies
Audit services	Contributions and donations
Data processing services	Bad debts
Bonding costs	Entertainment
Budgeting	Fines and penalties
Communications	General governmental expenses
Compensation for personnel services	Cost of idle facilities
Legal services needed for the administration of the grant	Fund raising and investment management costs
Depreciation or use allowances for equipment and facilities	Gains or losses on sale of depreciable property
Disbursing services	Interest on loans and bonds
Employee morale, health and welfare	Lobbying activities
Equipment and other capital costs	
Cost of idle capacity	
Insurance and indemnification	
Maintenance, operations and repairs	
Materials and supplies	
Memberships, subscriptions and professional activities (except those related to lobbying activities)	
Motor pools	
Costs that occur before the award date (pre-award costs) if they would have been allowable after the award date	
Cost of professional services	
Proposal costs	
Publication and printing	
Rearrangement and alteration of facilities	
Reconversion of facilities	
Rent	
Taxes	
Training	
Travel	

4.2 Cost Authentication Requirements

In order for any allowable cost to be included in the cost allocation plan, OMB Circular A-110 requires that the costs meet the following criteria:

- Are verifiable in the transit authority's records;
- Are not included as a local match for any other federally funded program;
- Are necessary for the accomplishment of the goals of the transit authority;
- Are not paid by the federal government by another award or grant program;
- Are allowable under the cost principles; and
- Are included in the federally approved budget at the time the grant is made.

This requirement applies to costs incurred by the Regional Transit Authority or by any other government entity that supports transit service, including the City and County governments.

The first of the above requirements is the most difficult to ascertain, especially when services are provided by multiple entities, as would be the case for a Charlottesville – Albemarle County regional transit authority. It is essential that the City, the County and any other entities that might provide an in-kind contribution in support of transit services, (e.g., JAUNT, UVa) keep detailed records about the amount of time, money and other resources devoted to the transit operations and management of the RTA. Ensuring that all costs are verifiable will require detailed recordkeeping of all staff activities and the uses of all equipment and facilities. Part of this process is the development of cost allocation documentation that provides costs for each line item. There are two types of allowable costs: direct costs and indirect costs. The cost plans must show the total cost of the program in question, including the direct program costs and the allocable portion of allowable indirect costs. Direct costs are those which can be readily assigned to the transit system with a high degree of accuracy. Examples could include transit vehicles, operating staff, bus maintenance facilities and other management staff devoted to transit operations.

Indirect costs (overhead) are those that cannot be readily assigned to a particular cost objective without effort disproportionate to the benefits received and are often items that support many functions. Governmental entities that perform multiple functions in the community will have many types of centralized costs that can be allocated to the transit portion of their responsibilities only indirectly. Some examples of indirect costs at a City or County government could include administration, management or legal services. Likewise, equipment, facilities and other items (especially real property and buildings related to those services) can be allocated as indirect costs of the transit system if they contribute in some way to the success of that system.

4.3 Centralized Cost Allocation

Centralized costs are those costs, direct or indirect which are performed centrally by a government entity to support multiple functions. Examples of these costs can include accounting costs, motor pools and computer services. All centralized costs, whether labor, materials or equipment, must be “identified and assigned to benefitted activities on a reasonable and consistent basis” according to the cost principles detailed in OMB Circular A-87. In Charlottesville-Albemarle County, this requirement would be applied to the Regional Transit Authority and any other governmental bodies that support transit service, including the City and County governments. Attachment C to Circular A-87 provides the procedures for this allocation process.

A centralized cost allocation plan must be developed annually by the RTA, and all other entities that will provide in-kind services. These allocation plans must be maintained for audit purposes. The plan must be accompanied by an organization chart and a copy of the Comprehensive Annual Financial Report. Each centralized cost that is being allocated to the grant program must be documented to show “identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies.” Additional guidance and examples of how to complete a centralized cost allocation plan can be found in the Implementation Guide for State, Local and Indian Tribal Governments (ASMB C-10)⁴ published by the Department of Health and Human Services. Whatever methodology is used to allocate centralized costs must be well documented; without substantive records that document each of the costs, the transit agency will not be able to withstand the scrutiny of an audit and will no longer be able to receive grant funding from FTA.

4.4 Cost Allocation Plan Requirements

If the City and County intend to provide in-kind services and if they do not already have documented cost allocation plans for their own use or in support of other federal grant programs, it will be necessary for such a plan to be developed.

Formal accounting records for all direct and indirect costs that are to be allocated to the transit function must be maintained to support the propriety of the costs. These records must encompass both the Regional Transit Authority and any other agencies that support transit service. The City and County entities that provide in-kind services in support of transit will have to allocate all of their costs across multiple functions to determine how much of each cost is allocable to the transit function. Details, examples and illustrations of how this can be done can be found in ASMB C-10.

4 The Implementation Guide can be found online at: <http://rates.psc.gov/fms/dca/s&l.html>

ASMB C-10 also provides guidance on how specific services can be subdivided across different functions and how much of each type of total cost can be allocated to the transit service for many different types of direct costs. Some examples include:

- allocating accounting services based on the number of transactions processed;
- allocating legal services based on the number of direct hours charged to transit-related work; and
- allocating payroll services by the number of transit system employees that are supported.

For each cost it is necessary to identify the standard by which costs will be allocated to the transit function. The examples provided in ASMB C-10 can be used, or other standards can be substituted. However, in either case, recordkeeping must be set up so that employees can track the transit-supportive tasks that they complete throughout the course of each year. In the examples listed above, accounting staff would be required to log the total number of transit-related transactions they processed while legal staff would be required to track the number of hours spent on transit-related work. For each function, the cost allocation plan will calculate a percentage of the total costs that should be allocated to the transit system.

One additional step is necessary in order to allocate indirect costs that are not easily subdivided by any reasonably simple unit of work (such as hours, transactions or personnel levels). For example, administrative services at the City of Charlottesville would fall into this category. Attachment E of OMB Circular A-87 provides regulations regarding the development of cost rates for indirect costs, while further guidance and examples can be found in ASMB C-10. Based on the amount of benefit derived by the transit system and the other functions operated by the City and County governments, an indirect cost rate must be developed using one of several methods that are detailed in these documents. These rates allow an appropriate portion of the allowable indirect costs to be allocated to the transit service. The indirect rate proposals must be accompanied by the following documentation:

- Proposed rates;
- Worksheets and other relevant data;
- A copy of the financial data on which the rate is based;
- The approximate amount of direct base costs incurred under Federal awards;
- An organizational chart; and

Any required certifications indicated in ASMB-10.

5 Other Grant Management Requirements

FTA Circular 5010.1C⁵ details specific applications of the aforementioned OMB circulars for use by transit operators. This document contains detailed requirements for administering and managing an FTA grant including budget changes, repair and replacement policies, and other requirements for grant recipients. For example, the allowable spare ratio (ratio of spare vehicles to peak service vehicles) for a transit system operating with more than 50 vehicles can be no more than 20% in order to be eligible for FTA funding. The detailed requirements can be viewed online and should be reviewed for each project or program receiving FTA funding. Procurement practices are also detailed in this document that must be adhered to by all grant recipients in the procurement of all services and equipment.

5 http://www.fta.dot.gov/laws/circulars/leg_reg_4114.html#chapter1

6 Data Reporting

FTA has several additional reporting and administrative requirements that must be followed by all grant recipients. The grant application process includes some additional guidance on many of these procedures. Periodic project milestone reports are required that provide spending updates on each element of that was included in a grant proposal. FTA also conducts triennial reviews with all recipients of Section 5307 grant funding (Urbanized Area Formula Program), for which the Charlottesville RTA would be eligible. As part of these audits, numerous questions must be answered about all aspects of the transit agency including operations, management, maintenance, procurement, information technology and marketing efforts. A sample of the current Triennial review package can be found online at http://www.fta.dot.gov/funding/oversight/grants_financing_97.html. Other reviews (including financing, procurement or safety) may be conducted at FTA's discretion.

6.1 National Transit Database

The NTD is the FTA's primary database for statistics on the transit industry. All recipients of Section 5307 grants are required to submit data to the NTD. This data is used to apportion the program monies each year and are used to report to congress on the success of transit programs. Reports from each participating agency are submitted via an online system on an annual basis. The reports include the following categories of information:

- Operational Characteristics
- Service Characteristics
- Capital Revenues and Assets
- Financial Operating Statistics

In order to count the total costs of transit service all of this information must be tracked for those services including any matches provided by the City and County governments. FTA publishes a manual⁶ that provides guidance for agencies that must report to the NTD in addition to training courses for transit agency staff members.

6 The 2007 Annual Reporting Manual can be found online at: http://www.ntdprogram.gov/ntdprogram/pubs/ARM/2007/html/2007_Reporting_Manual_Table_of_Contents.htm

7 Cost Accounting for RTA

As detailed in previous sections, the Charlottesville RTA and any local government or other organization that provides equipment or services in-lieu of cash contributions, will be required to keep cost accounting records for all direct and indirect costs associated with the provision of transit services. The following sections provide a general overview of the accounting that will be necessary to support claiming credit for such contributions. Samples and more detailed guidelines for cost accounting can be found in ASMB-10.

7.1 Direct Costs

Accounting for direct costs requires detailed recordkeeping for each facility, piece of equipment and employee. Each employee whose work directly provides benefit to the transit agency must keep track of how many hours each week they spend on transit related activities. An example presented in (Table 2) tracks the hours for three fictional staff members who are partially allocable to the provision and operation of transit services. In this example, the total cost for these three employees for the week ending on 4/25/2009 is approximately \$8,800. \$3,910, or approximately 44%, can be directly allocated to transit service. For this to meet accounting guidelines the jurisdiction would need a payroll and time recording system that supports recording of hours worked by project or activity.

Table 2: Sample Employee Cost Accounting

Person	Week Ending	Hours on RTA-related activities	Salary, Wages and Benefits (\$/hr)	Direct Cost
Charlotte Lawyer	4/25/2009	25	\$90	\$2,250
Charlie Accountant	4/25/2009	10	\$70	\$700
Albie Payroll	4/25/2009	16	\$60	\$960
etc				
Totals				\$3,910

7.2 Indirect Costs

Indirect costs are those costs which cannot easily be assigned to a particular cost objective and are will be included in costs of services provided to the RTA by a local jurisdiction through the use of an indirect cost rate. A cost rate must be calculated for each jurisdiction or type of indirect cost. Two methods can be used to calculate these rates: the simplified method which uses one rate for all indirect cost categories, or the multiple rate method which uses different rates for each cost category. In order to calculate an indirect cost rate using either of these methods, the contributing jurisdiction

will have to calculate the annual indirect-to-direct cost ratio. The RTA and participating entities will need to keep records of the total employee salaries, benefit costs, overhead costs and unallowable costs for the entity.

As an example, the following shows how an indirect cost rate could be calculated using the simplified method.

Table 3: Sample Indirect Cost Rate Calculation

Total	Exclusions and Unallowable Costs	Indirect Costs	Direct Salaries and Wages	Other Direct Costs	Cost Rate
\$5,302,298	\$1,776,616	\$908,321	\$1,863,917	\$753,444	48.7%

In this example, an addition 48.7% of the direct salaries and wages which were allocated to the RTA would be included as part of the total cost. All indirect cost rates must be approved by the FTA.

Similar calculations can be completed for equipment and facilities, substituting their annual depreciation for the salary of employees shown in Table 3 above. In this way, office buildings, motor pools and other costs can be allocated to the total RTA costs when appropriate. Table 4 shows a sample of how this could be done for each year.

Table 4: Equipment and Facility Accounting

Item	Purpose	Cost	%RTA	RTA Cost
Item 1	Vehicle Maintenance	\$22,158	42	\$9,306
Item 2	Office Building	\$1,256,259	25	\$314,065
Total		\$1,278,417		\$323,371

7.3 Preparation of an Audit

Justifying the labor hours devoted to specific activities and the indirect cost rate to be applied typically requires preparation of an independent audit. It has been suggested that the firm that currently prepares the audit for the City of Charlottesville would be willing to conduct the needed reviews and document the proposed value and rates. The County would need to establish a similar procedure to establish an indirect cost rate and value any services provided. Alternatively, the Authority could hire an independent auditor to establish or verify the values established by each jurisdiction and prepare the reports required to meet the FTA grant requirements.