
PENNSYLVANIA DEPARTMENT OF TRANSPORTATION

Bureau of Public Transportation

JULY 2017

PENNSYLVANIA PUBLIC TRANSPORTATION AUDIT REQUIREMENTS

FOR

FIXED ROUTE, SPECIALIZED AND INTERCITY BUS TRANSPORTATION PROVIDERS



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BACKGROUND AND APPLICABILITY

BACKGROUND

The purpose of this publication is to outline the Pennsylvania Department of Transportation's (PennDOT or Department) audit requirements applicable to grantees who receive operating and capital grant funding and provide fixed route, specialized transportation, or intercity bus transportation within the Commonwealth of Pennsylvania (Commonwealth or State). Grantees use these grant funds to subsidize the operating and capital costs of providing transportation to the public. All grant agreements executed between PennDOT as the grantor and the transit provider as the grantee are governed by State legislation enacted to provide such funding. This legislation enables PennDOT to establish guidelines that set financial policy with regard to accounting, reporting, and management of State grant funds provided to grantees. Grantees are required to adhere to these requirements to receive funds from the Commonwealth.

All grantees are required to have an annual audit of the financial statements performed by a certified public accounting firm (auditor) at the end of each fiscal year. In addition to the financial statement audit, auditors are required to report on the level of compliance with regard to the accounting and reporting procedures, and the management of grant funds pursuant to PennDOT requirements. Given this objective, audits for all grantees are to be performed in accordance with *Generally Accepted Government Auditing Standards* (GAGAS or Yellow Book audit) and must incorporate the procedures shown in Section IV of this publication as part of the audit program the accounting firm has developed to conduct the audit. As an alternative, a separate attestation engagement (Engagement) may be performed pursuant to agreed upon procedures (AUP) focusing on grant provisions and PennDOT requirements in addition to the financial statement audit that is to be conducted in accordance with *Generally Accepted Auditing Standards* (GAAS) that are applicable to the entity being audited if this approach is deemed to be more cost effective than conducting a Yellow Book audit. If a separate Engagement is conducted, it is to be conducted on an AUP attestation basis pursuant to the guidelines outlined in Section IV. The Engagement is to be conducted and the results are to be reflected in accordance with the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements (SSAEs). In all cases, the financial statements in the audit are to be prepared and presented in accordance with *Generally Accepted Accounting Principles* (GAAP) applicable to the type of entity being audited. Pursuant to GAAP, these financial statements and their respective formats vary by the organizational type of grantee and are addressed later in this Publication. Furthermore, the financial statements are to include results for the year being audited and the prior year for comparative purposes unless prescribed differently pursuant to

GAAP that are applicable to the particular entity. In addition, a Narrative Discussion and Analysis, if a Management Discussion and Analysis (MD&A) is not already included as part of the basic audited financial report, and Supplementary Schedules (i.e., legacy budget reports and schedules) is to be included as Supplementary Information in the audited financial statement report.¹ Intercity Bus grantees are exempt from certain reporting requirements given the nature of their operations. The reporting exceptions are noted where applicable in this publication.

This publication is intended to provide guidance to all grantees and their auditors for the specific auditing, accounting, reporting, and grant management requirements related to grant funds. It also specifically identifies the annual audit and grant compliance requirements that PennDOT expects to be fulfilled.

UPDATE OF REQUIREMENTS

PennDOT is responsible to inform grantees annually of any updates made to this publication. Grantees are expected to ensure their respective accounting firms have received these updates prior to the performance of an annual audit. However, auditors should recognize that laws and requirements change periodically and that delays will occur between such changes and revisions to this publication. Moreover, auditors should recognize there may be provisions of contract and grant agreements that are not specified in law or regulation and, therefore, the specifics of such may not be included in this publication. For example, the grant agreement may specify a certain local matching percentage or minimum amount with which the grantee must comply.

Accordingly, the auditor should perform reasonable procedures to ensure compliance requirements are current and determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit. Reasonable procedures may include inquiry and review of the contract and grant agreements for programs selected for testing.

¹ See page 32 for further guidance on content.

SAFE HARBOR STATUS

Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether alternative audit procedures are needed. Therefore, the auditor should **not** consider this publication a safe harbor for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider this publication a safe harbor for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor performs reasonable procedures to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit.

RESPONSIBILITY FOR OTHER REQUIREMENTS

Although the focus of this publication is on compliance requirements that could have a direct and material effect on a PennDOT grant, firms conducting audits under GAGAS also have responsibility for other requirements when specific information comes to the auditors' attention regarding internal control deficiencies and noncompliance with laws, regulations, contracts and grant agreements that have a material effect on the financial statements.

COMPLIANCE REQUIREMENTS

I. APPLICABILITY

Any grantee, regardless of its entity type, delivering fixed route, specialized, or intercity bus service in Pennsylvania and receives grant and/or contract funding from PennDOT for these or any other transportation programs and/or from any other Commonwealth department or agency for such transportation services is required to follow the auditing, accounting and reporting requirements contained in the section applicable to the grantee's legal organizational form.

II. AUDIT AND AUP ENGAGEMENT REQUIREMENTS

REGULATION TITLE: Timing and Performance of Audit and AUP Engagement

OBJECTIVE: Ensure the timely and professional performance of the financial statement audit and, if applicable, an AUP engagement pursuant to the guidance provided in the Background section of this publication

COMPLIANCE REQUIREMENT: All grantees are required to have an annual financial audit and agreed upon procedures attestation (if applicable pursuant to the guidance provided in the Background section) performed by a certified public accounting firm at the end of each July 1st to June 30th fiscal year. The annual financial audit and agreed upon procedures attestation must be submitted to PennDOT within six months of the conclusion of each fiscal year.

Exception: Intercity Bus Operators may have an alternate fiscal year, but are required to provide supplemental financial information on a July 1st to June 30th fiscal year basis related to the PennDOT program being evaluated.

REGULATION TITLE: Audit Standards

OBJECTIVE: Ensure consistency in all grantee financial audits and the use of standard auditing procedures.

COMPLIANCE REQUIREMENT: The financial audit is to be performed in accordance with the audit standards dictated by the type of entity and the amount of funds received through federal and state grants. Auditors are required to communicate the use of these standards in the independent auditor’s report. Furthermore, PennDOT requires the auditor to work with the grantee to determine if the grantee is required to have a single audit performed pursuant to OMB Uniform Guidance.

REGULATION TITLE: Independent Auditor’s Report – Reporting on Supplemental Information

OBJECTIVE: Ensure all PennDOT supplemental schedules have been subject to the same audit procedures that the independent certified public accounting firm applied in the audit of the financial statements and ensure that the accuracy of these supplemental schedules have been confirmed by a reconciliation to the audited financial statement².

COMPLIANCE REQUIREMENT: In the Other Supplemental Information (Other Matters) section of the audit opinion, there must be specific language that provides assurance that the supplemental schedules required by PennDOT represent the same figures as shown on, and reconciled to, the audited financial statement. As an example, such language should read as follows:

” Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the [entity’s] financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the basic financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with [the applicable auditing standards generally accepted in the United States of America for the particular organizational type of the grantee]. In our opinion, the

² The PennDOT supplemental schedules must be reconciled to the audited Statement of Revenues, Expenses and Changes in Net Position. PennDOT supplemental schedules for Intercity bus operators must be reconciled to the grantee’s accounting records pursuant to agreed upon procedures shown on page 51 with findings contained in the report.

[specifically identify each PennDOT supplemental report and schedule] is fairly stated in all material aspects in relation to the financial statements. “

REGULATION TITLE: Accounting and Reporting Standards

OBJECTIVE: Ensure consistency in all grantee financial audits and the use of standard accounting and reporting conventions.

COMPLIANCE REQUIREMENT: Financial statements are to be prepared and presented in accordance with *Generally Accepted Accounting Principles* (GAAP) applicable to its organizational type. Auditors are required to express an opinion on whether the financial statements are presented fairly, in all material aspects, in accordance with GAAP.

III. ACCOUNTING AND REPORTING REQUIREMENTS

A. STANDARD REPORTING (EXCLUDING SUPPLEMENTAL SCHEDULES AND REPORTS REQUIRED BY PENNDOT)

This section outlines the diverse types of financial reports and accounting methods present across different legal organizational forms. The overview identifies the required reports and accounting methods for the following organizational forms for reference purposes:

- i. For Profit - Publicly Traded Entities (non-governmental)
- ii. For Profit - Private Entities (non-governmental)
- iii. Not-For-Profit Entities (governmental and non-governmental)
- iv. Governmental Entities (Primary)
- v. Special Purpose Governmental Entities

i. For Profit - Publicly Traded Entities

Financial Statements (Accounting Basis and Format): Governed by the Securities and Exchange Commission (SEC) under Regulation S-X, and by GAAP as issued by the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC). The statements are prepared on the full accrual basis of accounting.

Basic Financial Statements Required Annual Period

1. Balance Sheet (two comparable periods)
2. Income Statement with Comprehensive Income or a standalone Statement of Comprehensive Income (normally three comparable periods)
3. Statement of Equity (normally reflecting activity for the current and prior two periods)
4. Statement of Cash Flows (normally three comparable periods)
5. Notes to the financial statements

ii. Private Entities

Financial Statements (Accounting Basis and Format): Governed by GAAP as issued by the FASB's ASC. The statements are prepared on the full accrual basis of accounting.

Basic Financial Statements Required Annual Period

1. Balance Sheet (two comparable periods)
2. Income Statement with Comprehensive Income or a standalone Statement of Comprehensive Income (normally two comparable periods)
3. Statement of Equity (normally reflecting activity for the current and prior period) – An option is available to disclose the information contained in this statement in the notes to the financial statements
4. Statement of Cash Flows (normally two comparable periods)
5. Notes to the financial statements

iii. Not-For-Profit Entities (non-Governmental)

Financial Statements (Accounting Basis and Format): Governed by GAAP as issued by the FASB's ASC (specifically ASC 958). The statements are prepared on the full accrual basis of accounting. Governmental not-for-profit entities follow guidance issued by GASB.

Basic Financial Statements Required (comparative statements are not mandatory)

1. Statement of Financial Position (Balance Sheet)
2. Statement of Activities (Income Statement)
3. Statement of Cash Flows
4. Notes to the financial statements

iv. **Governmental Entities (Primary)**

Proprietary Funds (Enterprise Funds and Internal Service Funds)

Accounting Basis – Full accrual basis and economic resources measurement focus comparable to the accounting basis utilized for non-governmental for profit private entities as prescribed under GAAP issued by the Governmental Accounting Standards Board (GASB).

Basic Financial Statements Required – outside of MD&A and other Required Supplementary Information (RSI):

1. Statement of Net Position or Balance Sheet (normally two comparative periods)
2. Statement of Revenues, Expenses, and Changes in Fund Net Position or Fund Equity (normally two comparative periods)
3. Statement of Cash Flows (normally two comparative periods)
4. Notes to financial statements

General, Special Revenue and Other Governmental Classified Funds:

Accounting Basis – Modified Accrual Basis with a current financial resources measurement focus centering on near term financial resources (i.e., largely related to the availability and obligation commitments of near term sources of cash). As such, unlike a full accrual basis, long term impacts of transactions and events that occur are not fully reflected in the financials.

Basic Financial Statements Required – outside of MD&A and other RSIs

1. Balance Sheet (comparative periods suggested)
2. Statement of Revenues, Expenditures, and Changes in Fund Balance(s) (comparative periods suggested)
3. Notes to financial statements

Fiduciary Funds (with respect to funds containing assets held in a trustee capacity for others and not for use in supporting a government entity's own programs):

Accounting Basis - Largely on a full accrual basis and on an economic resources measurement focus except for pension and post-retirement benefits that have special accounting consideration/provisions.

Basic Financial Statements Generally Required – outside of MD&A and other RSIs

1. Statement of Fiduciary Net Position (comparative periods suggested)
2. Statement of Changes in Fiduciary Net Position (comparative periods suggested)
3. Notes to financial statements

v. **Special Purpose Governmental Entities**

Entities primarily engaging in business type activities

Accounting Basis – Full accrual basis and on an economic resources measurement focus comparable to the accounting basis utilized for non-governmental for profit private entities

Basic Financial Statements Required – outside of MD&A and other RSIs

1. Statement of Net Position or Balance Sheet (normally two comparative periods)
2. Statement of Revenues, Expenses, and changes in Fund Net Position (normally two comparative periods)
3. Statement of Cash Flows (normally two comparative periods)
4. Notes to financial statements

Entities primarily engaging in fiduciary type of activities

Accounting Basis - Largely on a full accrual basis and on an economic resources measurement focus except for pension and post-retirement benefits that have special accounting consideration/provisions.

Basic Financial Statements Required – outside of MD&A and other RSIs

1. Statement of Fiduciary Net Position (comparative periods suggested)
2. Statement of Changes in Fiduciary Net Position (comparative periods suggested)
3. Notes to financial statements

B. GENERAL REVENUE RECOGNITION AND RESTRICTED CASH REPORTING REQUIREMENTS

SUBSIDY REVENUE RECOGNITION FOR GRANTEES RECEIVING OPERATING AND CAPITAL GRANTS FOR FIXED ROUTE TRANSPORTATION

Financial statements must properly represent (1) the use of all non-exchange government subsidies as non-operating subsidy revenue and (2) unused subsidies that are carried over to the following year as unearned revenue for future use, restricted for a particular purpose(s). **Note:** A grantee's revenue recognition policy for Fixed Route Operating and Capital Assistance must conform to the compliance requirements outlined below for its external financial reporting when not in conflict with GAAP applicable to the grantee. The current authoritative GAAP revenue recognition guidance for governmental entities is GASB No. 33 Accounting and Financial Reporting for Nonexchange Transactions.

State and Federal grants that are provided to grantees in the Commonwealth, along with matching contributions from local municipalities, are classified as non-exchange transactions. In the case of grantees, non-exchange transactions involve the grantees' receipt of a grant(s) without the grantees giving equal value in return. However, if a grantee permanently ceases operations and the entity is dissolved, the grantee is obligated to return all unused/remaining grant funds to the original Federal, State or Local grantor.

Federal, State and local grant funds for public transportation are classified as *government-mandated non-exchange transactions*. Although each grant requires a grantee to use funds for a restricted purpose (expenditures incurred in the delivery of public transit service), there are both time and eligibility requirements that dictate the timing of revenue recognition of these grant funds.

Timing Requirements and Purpose Restrictions

There are two kinds of stipulations on the use of resources – purpose restrictions and time requirements. Different standards apply for each stipulation:

Purpose restrictions specify the purpose for which grant funds are required to be used. Although purpose restrictions should result in the reporting of restricted

net position, equity or fund balance, purpose restrictions alone should not affect when such funds are recognized as revenue.

Time requirements, however, specify the period(s) when grant funds are required to be used or when use may begin (i.e. grants for a specific period). Time requirements affect the recognition of non-exchange transactions and their related grant funds.

For all Federal and State grants, along with associated local matching contributions, when there are both purpose restriction **and** timing requirements, ***timing requirements dictates when funds are recognized as revenue***. Therefore, timing requirements for when grant funds are required to be used dictate when the grant funds are recognized as revenue. Eligibility and timing requirements regarding these funds are more clearly defined in the subsequent paragraphs in this section.

FEDERAL AND STATE OPERATING GRANTS AND ASSOCIATED LOCAL MATCH CONTRIBUTIONS

Grantees are to recognize operating grant subsidies ***when all applicable eligibility requirements are met***. Eligibility requirements are dictated by both the nature of the grant application and approval process, the resulting executed grant agreement, the timing of when eligible operating expenses are incurred and the timing of when operating grant funds are used to subsidize such expenses.

Grantees in the Commonwealth that provide fixed route public transit service apply for operating assistance each year for the upcoming fiscal year. State and federal operating funds that are granted/administered by PennDOT are part of PennDOT's single operating grant application process. Although the grantee may receive State and local funds (and possibly Federal funds) in a particular year pursuant to the operating grant agreement for said year, such funds can only be used to fund ***eligible operating expenses***. Operating expenses only become eligible for subsidization ***once the expense has been incurred***. Once grant funds have been used to subsidize eligible operating expenses for the current fiscal year, any operating grant funds³ received in excess of grant funds used to subsidize the current year's eligible operating expenses ***are required to be classified as unearned revenue and used in subsequent fiscal years***.

³ Limited to State funds only for the majority of Pennsylvania public transportation grantees. See "Timing Use of Local Matching Contributions – Operating Funds".

A balanced operating budget requirement is required by the operating grant approval process. Grantees' actual financial results at the end of the fiscal year are expected to reflect either a balanced operating result or an operating surplus.⁴ Any unused/excess operating grant funds⁵ that were received during the year ***are to be classified as unearned revenue since eligible operating expenses were not incurred for this portion of the grant funds that were received during the year.***

INTEREST/INVESTMENT INCOME ON FUNDS FROM FEDERAL AND STATE OPERATING GRANTS, PENNSYLVANIA TRANSPORTATION ASSISTANCE FUND (PTAF), ACT 3 OF 1997 (ACT 3) AND LOCAL MATCH CONTRIBUTIONS

Grantees must ***not*** report any interest/investment income generated from the above referenced grant funds and used towards operating expenses as interest/investment income on the audited Statement of Revenues, Expenses, and Changes in Net Position. Until used, such interest/investment income is to be considered a component of the respective unearned Act 26 and Act 3 unearned revenue until used for eligible operating expenses. Interest earnings on these grant funds that are used are considered part of subsidy revenue and are to be reported as such on the audited Statement of Revenues, Expenses, and Changes in Net Position.

The basis for this guidance is that accumulated interest earned on these grants is accounted for and treated as an incremental part of the grant subsidy fund balance available for use. Similar to the State grants and local matching contributions that generated the interest income, interest earnings received are classified as unearned revenue until used. At the time of usage, any interest earnings are recognized on the audited Statement of Revenues, Expenses, and Changes in Net Position as non-operating subsidy revenue. Therefore, subsidy funds that are used consist of used grant funds and used interest earnings generated from such grant funds. Interest related to Non-Fixed and Non-Public transportation activity and interest earned on capital grant proceeds⁶ should be reported as interest income on the audited Statement of Revenues, Expenses, and Changes in Net Position, because they were

⁴ Excluding non-applicable items for PennDOT reporting purposes (i.e. depreciation), agencies are permitted to show an unbalanced operating result (operating deficit) if it can demonstrate that the deficit is being funded from balance sheet transactions such as, but not limited to, accumulated retained earnings or cash proceeds from loans or line of credit drawdowns. Such assumptions should be stipulated as part of the grant application.

⁵ Limited to State funds only for the majority of Pennsylvania public transportation grantees. See "Timing Use of Local Matching Contributions – Operating Funds".

⁶ Includes interest earned on proceeds from bonds issued for the purpose of capital asset acquisitions.

generated from non-grant funds or from State or local funds that were provided on a reimbursable cost basis.

PTAF AND ACT 3

Act 26 of 1991 (Act 26) included the distribution of State capital grant funding to eligible grantees from PTAF and Act 3, providing similar funding to grantees. Act 3 provided grantees with Base Supplemental Grant (BSG) and Additional Supplemental Grant funds. Both PTAF and Act 3 grant programs required local matching capital funds. Both grant programs distributed State grant funds to grantees prior to or in the fiscal year in which eligible capital project expenditures were incurred.⁷ Capital expenditures become eligible once the expenditure has been incurred. Once grant funds have been used to subsidize eligible capital expenditures for the current fiscal year, any capital grant funds in excess of grant funds that were received to subsidize the current year's eligible capital expenditures are required to be classified as unearned revenue and used in subsequent fiscal years.

As grantees incurred expenditures during the year for capital projects that were approved by PennDOT, these capital expenditures became eligible for subsidy through the use of these capital grant funds and such capital grants should therefore be recognized in the same fiscal year to the extent of the amount of grant funds that are used to subsidize the capital expenditures. Any remaining unused capital grant funds received during the year are to be classified as unearned revenue since the requirement of eligible capital expenses was not met for this portion of the grant funds.

FEDERAL CAPITAL GRANTS, STATE CAPITAL BOND GRANTS, AND ACT 44 OF 2007

With the enactment of Act 44 of 2007 (Act 44), the way grantees were funded for capital projects changed. Grantees no longer receive capital grant funding (i.e., PTAF) in advance of the capital expenditures being incurred for projects that were approved by PennDOT. Similar to the FTA's distribution of capital funds for eligible capital expenditures, the State distributes capital grant funds for projects under the discretionary capital bond program and under Act 44 after eligible capital expenditures are incurred. Recognition of the capital grant therefore occurs in the year in which the grant funds are available and eligible expenses are incurred.

⁷ See page 47 for Restricted Use of State Act 3 BSG and ASG Grants and Associated Local Matching Contributions with regard to the application of such funds towards operating funds for Urban and Rural transit agencies.

RESTRICTED CASH - CLASSIFICATION

In cases where there are unused/remaining Federal, State, or local operating and/or capital grant funds, such grant funds are to be classified as restricted cash separately by grant program and by funding source and must be classified as unearned revenue. If the restricted cash is summarized and not reported by grant program on the Statement of Net Position, it must be disclosed separately for each grant program in the notes to the financial statement.

C. PENNDOT SUPPLEMENTAL SCHEDULES AND REPORTS:

Additional supplemental schedules and an MD&A (Narrative Discussion and Analysis) report are required if not already included in the standard reports itemized in Section III A above. This section addresses the following supplemental schedules and reports:

1. Statement of Revenues, Expenses, and Changes in Net Position (including format and account classification definitions and requirements)
2. Supplementary Schedules
3. Narrative Discussion and Analysis

Note: Intercity Bus Operators are exempt from certain reporting requirements, as noted where applicable in this section.

1. Statement of Revenues, Expenses, and Changes in Net Position

OBJECTIVE: Ensure the grantee presents its Statement of Revenues, Expenses and Changes in Net Position based on the exclusive activities of the transportation program being examined, and ensure the presentation of the statement is in accordance with PennDOT accounting and reporting requirements. When not in conflict with the GAAP applicable to the grantee, use the format presented below for the statement reflected as part of the basic financial statements covered by the audit opinion. If the report form conflicts with the accounting principles applicable to the grantee, or if the statement is not exclusive to the activities relating to the PennDOT program being examined, then include the Statement of Revenues, Expenses, and Changes in Net Position in the Supplemental Information section of the report reflecting only the activities of the program being examined. **Note:** Intercity Bus Operators are exempt from producing a Statement of Revenue, Expenses and Changes in Net Position exclusive to the program

being audited. See supplemental schedules required in Section **III C (3)** for Intercity Bus Grantees.

COMPLIANCE REQUIREMENT: Grantees must include in their annual audits a Statement of Revenues, Expenses, and Changes in Net Position presented in the PennDOT compliant format that is shown on the following page. If the report form of the report below conflicts with the accounting principles applicable to the grantee, then include the Statement of Revenues, Expenses, and Changes in Net Position in the Supplemental Information section of the report.

Grantees must not deviate from the reporting standard described in this document (line item summarizations, line item reclassifications, etc.) for the Statement of Revenues, Expenses, and Changes in Net Position.

Auditors are cautioned to pay close attention to all reporting classifications as specific conditions exist on some of these classifications and testing must occur to confirm these conditions are being met.

Auditors must verify whether all amounts are consistently and correctly reported in all PennDOT supporting schedules in accordance with the guidance provided in this document and in, depending on the type of grantee, PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*, *Financial Reporting Manual for Shared Ride and Specialized Transportation Providers* or *Financial Reporting Manual for Intercity Bus Operators*.

REQUIRED FORMAT FOR THE STATEMENT OF REVENUES, EXPENSES, and CHANGES IN NET POSITION is shown on the next page:

STATEMENT OF REVENUES, EXPENSES, and CHANGES IN NET POSITION

FYXX-XX

FYXX-XX

Operating Revenue:

- Passenger fares
- Charter
- Route Guarantees
- State Medical Assistance Transportation Program
- State Shared Ride Program
- State Welfare to Work Program
- State Persons with Disabilities Program
- Area Agency on Aging
- Mental Health/Intellectual & Developmental Disabilities
- Other contract revenue
- Advertising
- Miscellaneous income
- Total operating revenue

Operating expenses:

- Salaries and Wages
- Fringe Benefits
- Services
- Fuel & Lubricants
- Tires & Tubes
- Other Materials & Supplies
- Utilities
- Casualty & Liability
- Taxes
- Purchased Transportation
- Leases and Rentals
- Miscellaneous expense
- Depreciation
- Total operating expenses

Loss from Operations

Non-operating revenue/(expenses):

Capital funds used for operating assistance and planning grants:

- Federal government
- Commonwealth of Pennsylvania
- Local governments
- Operating grants:
- Federal government
- Commonwealth of Pennsylvania Act 44 Funds
- Local governments Act 44 Matching Funds
- Other Commonwealth and Local operating funds
- Total government subsidies for operations

- Other private/public sources
- Interest income
- Gain/(loss) on disposal of capital assets
- Interest expense

Total non-operating revenue/(expenses)

Loss before capital grant funding

Capital grant funding:

- Federal
- State
- Local

Total capital grant funding

Increase/(decrease) in net position

Net Position at Beginning of Year

Net Position at End of Year

Note the financial statement on the previous page as well as any of the standard financial statements included in the audited financial reports must be reflected on a comparative basis to financial results for the prior year. The applicability of each line item above will vary between grantees; particularly fixed route transportation providers when compared to stand alone specialized transportation providers. Grantees are not expected to include line items that have no activity.

LINE ITEM DEFINITIONS FOR THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION:

Guidance on the content of each line of the Statement of Revenues, Expenses, and Changes in Net Position follows:

Operating Revenue

Passenger Fares

Passenger fares are revenues earned and collected from passengers. They are the amounts paid by the rider, in the form of cash, tokens, and tickets, to use transit services and amounts paid as special transit fares. Special transit fares are fares from contracts to the grantee in which a grantee or organization pays an amount in return for unlimited transit service for the persons covered by the contract. Fare revenue that is billed to and paid by any sponsoring agencies or revenue received as part of a fare reimbursement program administered by the Commonwealth or third-party grantee sponsor ***is not*** included as part of passenger fares.

Passenger fares may include special programs such as reduced passes or ticket prices for students, the elderly or individuals with disabilities. However, passenger fares reflect the amount of the fare that the passengers pay on their own behalf.

Passenger fares may be collected in several ways, including:

- Before service is provided (e.g., through the sale of media such as passes, tickets and tokens sold to passengers with unused portion reported as unearned revenue)
- Directly at the point of service (e.g., farebox, turnstile)
- After the service is provided, (e.g., through weekly or monthly billing).

Passenger fares do not include contract revenue, grants, subsidies, or passenger fare assistance from other entities, such as governments to provide a reduced fare or free fare. Grants and subsidies are provided to support the general provision of transit service and are reported as non-operating revenue that is discussed later.

Charter

Charter revenue is revenue earned from operating vehicles under charter contracts.

Route Guarantees

Route guarantees are conditional commitments, either express or implied, by a private or public entity to a local transportation organization to provide financial compensation in return for the provision of public transportation service to a designated area or destination which can only be served with financial compensation.

State Medical Assistance Transportation Program

Medical Assistance Transportation Program (MATP) revenue reflects contract revenue received from MATP for various modes of transportation trips provided to eligible MATP clients by the grantee or its subcontractors under the program. In addition, this amount is to include funds the grantee receives from MATP (1) as mileage reimbursement for payment to MATP patrons for the use of personal vehicles and (2) for the reimbursement of costs which the grantee incurred to administer the program.

State Shared Ride Program

Shared Ride Program revenue represents the amount of fare reimbursement revenue received from the Pennsylvania State Lottery Program for trips taken by passengers that are age 65 or older.

State Welfare to Work Program

The Welfare to Work (WTW) Program includes fare reimbursement or contract revenue received from the program for all passenger trips provided by the grantee under this program. In addition, this amount is to include funds received from the WTW program for the reimbursement of costs which the grantee incurred to administer the program.

State Persons with Disabilities Program

Revenue received from the Persons with Disabilities (PwD) Program represents the amount of fare reimbursement or contract revenue received for passenger trips provided by the grantee under the PwD program.

Area Agency on Aging

Area Agency on Aging (AAA) revenue reflects fare reimbursement or contract revenue received from AAA for passengers who received trips under the program.

Mental Health/Intellectual & Developmental Disabilities

Revenue received from the Mental Health/Intellectual Developmental Disabilities (MH/ID) Program represents the amount of fare reimbursement or contract revenue received for passenger trips provided by the grantee under the MH/ID Program.

Other Contract Revenue

Contract revenue received from any other third party.

Advertising

Advertising revenue is revenue earned from displaying advertising materials on grantee vehicles and property. The amounts should be net of any fees paid to advertising agencies, which place the advertisement with the grantee.

Miscellaneous income

Revenue derived from other miscellaneous sources includes, but is not limited to, rental income, concession income, refund or distribution of insurance premiums, etc.

Operating Expenses

Salaries and Wages

Salaries and wages are the labor expenses for a grantee's employees.

Fringe Benefits

Fringe benefits are expenses for employment benefits or services that an employee receives in addition to his/her basic wages. These payments are the grantee's costs over and above direct labor costs, but still arising from the employment relationship. Typical benefits include contributions to or providing:

- Retirement plans
- Pension plans
- Medical plans
- Dental plans
- Life insurance and short-term disability plans
- Employer payroll taxes

- Unemployment insurance
- Workers' compensation insurance
- Sick leave
- Holiday leave
- Vacation (and other paid leave such as bereavement leave, jury duty)
- Uniform and work clothing allowances typically for drivers and security personnel
- Tool allowances for mechanics

Services

Services include management services, professional services, and temporary labor services for personnel who are not employees of the grantee or the governmental body. Services are expenses for the labor and other work provided by outside organizations for fees and related expenses.

Some grantees are organized as a department of local government, or as part of a multifunctional organization. If the grantee is organized this way, the grantee is not deemed to purchase services from other parts of the governmental entity or multifunctional organization. Therefore, the grantee should not report these costs as Service expenses. Instead, the grantee should report all expenses for activities pertaining to the transit services, but performed by other departments or offices within the governmental or multifunctional entity, in the appropriate operating expense. For example, if the grantee is a department of a county government and the county highway department maintains the transit vehicles, the highway department's maintenance labor expenses are to be classified as Salaries and Wages and fringe benefit costs as Fringe Benefit expenses.

Fuel & Lubricants

Fuel and lubricants are the costs of items such as gasoline, diesel fuel, propane, lubricating oil, transmission fluid, and grease for use in vehicles. Taxes levied on fuel and lubricants and paid by the grantee are not to be classified as part of Fuel and Lubricants but instead are to be classified as Taxes as described below.

Tires & Tubes

Tires and tubes are the lease payments for tires and tubes rented on a time period or mileage basis or the cost of tires and tubes for replacement of tires and tubes on vehicles.

Other Materials and Supplies

Other materials and supplies are the costs of materials and supplies not previously identified. These materials and supplies may be issued from inventory or purchased for immediate consumption and include items such as office supplies and parts used to repair revenue and service vehicles.

Utilities

Utilities costs cover payments made to utility companies for the purchase of utility or related services. Utilities include propulsion power used for electrically driven vehicles, electric power for other uses, water and sewer, natural gas and other fuels for heating, telephone and garbage collection.

Casualty and Liability Costs

Casualty and liability costs are expenses related to losses incurred by the grantee including the costs of loss protection. These expenses include compensation of others for their losses due to acts for which the grantee is liable, the costs of protecting the transit grantee from losses through conventional insurance and other risk financing programs (e.g., self-insurance, pools) and grantee losses due to the liable actions of others that are covered by other corporate insurance.

Casualty and liability costs include:

- Physical damage insurance premiums
- Recovery of physical damage losses for public liability and property damage insurance premiums
- Insured and uninsured public liability and property damage settlement pay outs and recoveries, and
- Other corporate insurance premiums (e.g., fidelity bonds, business records insurance)

Taxes

Taxes are the charges and assessments levied against the grantee by Federal, State and local governments.

Expenses include:

- Income taxes
- Property taxes
- Fuel and lubricant taxes

- Electric propulsion power taxes
- Vehicle licensing and registration fees

This classification should not include:

- Sales and excise taxes on materials and services purchased other than fuel and lubricants. Grantees should report these as part of the base price of the material in Other Materials and Supplies or service in Services.
- Rebates and reimbursements of taxes as a credit against an operating expense. Such transactions should be included as rebates and reimbursements paid as revenue and classified as Miscellaneous Income.

Purchased Transportation Service

Purchased transportation (PT) services are expenses, including MATP mileage reimbursement costs, incurred and billed by PT providers (sellers) in the operation of the contracted transit services identified. The PT services expense classification is not included in the expenses associated with directly operated services.

The PT service expense is for the buyer of PT service and covers the payments or accruals made to the PT provider. This expense classification does not include:

Expenses incurred by a grantee in support of the PT services - for example, salaries and wages of grantee personnel administering or working in some capacity in support of the agreement, fuel and tires if provided to the seller, vehicle maintenance, marketing, advertising, legal services, and ticket sales. These are other costs incurred by the grantee and are classified in the appropriate expense categories.

Leases and Rentals

Leases are payments for the use of capital assets not owned by the grantee. Leases and rentals are true leases and cover the total cost of the capital asset plus interest.

Leasing often covers two types of costs:

- Capital equipment lease costs
- Operating and maintenance costs

All leases and rental costs must be included regardless of whether State operating or eligible capital grant funds were used to pay for these costs pursuant to grant requirements.

When reporting leases, costs associated with operating or maintaining the equipment must be segregated from the costs associated with leasing capital equipment. Operating and maintenance costs are to be reflected in the appropriate expense classifications. Only the cost of leasing the capital equipment should be included under Leases and Rentals.

Related party leases include leases where the terms and amount of payments by the grantee are substantially less than in a true lease because the grantee is related to the lessor. For example, a grantee may lease surplus equipment from another grantee or local government.

Miscellaneous Expenses

Miscellaneous expenses are expenses that cannot be classified in the other expenses that have been discussed.

Miscellaneous expenses include, but are limited to:

- Dues and subscriptions
- Travel and meeting expenses
- Bridge, tunnel and highway tolls
- Entertainment expenses
- Charitable donations
- Fines and penalties
- Bad debt expense
- Advertising and promotion expenses
- Incidental transit services

Depreciation

Depreciation reflects the interperiod allocation of cost associated with a long-lived asset intended to reflect the loss in service value of the grantee's capital assets. As capital assets, depreciated items have a high initial cost and a useful life of more than one year. To reflect the consumption or use of the asset over its service life, a portion of the asset's cost is expensed each year.

Non-operating revenues/(expenses)

Capital Funds Used for Operating Assistance and Planning Grants

Federal Government

Amounts reflected in this classification include the amount of Federal capital subsidies that are **used** to fund eligible expenditures such as preventive maintenance costs, capital cost of contracting, and associated capital maintenance costs. The use of Federal planning grants is also included in this classification.

Commonwealth of Pennsylvania

Amounts reflected in this classification include the amount of State capital subsidies that are **used** to fund eligible expenditures such as those used to match Federal funds that were applied to preventive maintenance costs, capital cost of contracting, and associated capital maintenance costs. Auditors must use caution if a grantee is reporting the use of capital funds in this classification if the source of funds was Act 44 Sections 1514, 1515, 1516, or 1517. A waiver to use these Commonwealth funds in this manner must be provided and pre-approved by PennDOT. In addition, auditors should be informed that grantees with remaining PTAF and Act 3 ASG balances are permitted to use these funds towards leases and rentals including lease agreements for tires and tubes. The use of State planning grants is also included in this classification.

Local Governments

Amounts reflected in this classification include the amount of local capital subsidies **used** to fund eligible expenditures such as those to match the use of Federal funds that were applied to preventive maintenance costs, capital cost of contracting, and associated capital maintenance costs. Auditors must use caution if a grantee is reporting the use of local capital matching contribution funds in this classification if the match is for the State source of funds that was used under Act 44 Sections 1514, 1515, 1516, or 1517. A waiver to use these local matching contribution funds in this manner must be provided and pre-approved by PennDOT. In addition, auditors should be informed that grantees with

remaining local PTAF and Act 3 ASG balances are permitted to use these funds towards leases and rentals including lease agreements for tires and tubes. The use of local planning grants is also included in this classification.

Operating Grants

Federal Government

Amount reflects Federal operating assistance funds (i.e. Federal 5311) that the grantee **used** towards eligible operating expenses.

Commonwealth of Pennsylvania Act 44 Funds

Amount reflects State Act 44 Section 1513 funds that the grantee **used** towards eligible operating expenses.

Local governments Act 44 Matching Funds

Amount reflects local matching contribution funds to State Act 44 Section 1513 funds that the grantee **used** towards eligible operating expenses.

Other Commonwealth and Local Operating Funds

Amounts reflect all other State and local operating funds that the grantee **used** towards eligible operating expenses.

Other private/public sources

Amount reflects all other private and public funds not previously mentioned that the grantee **used** towards eligible operating expenses.

Other Sources

Interest income

Interest income is money received by grantees from banks and financial institutions for deposits that the grantee makes and the balances that it keeps in its accounts throughout the year, including interest/investment income that is received from all fare reimbursement grants /contracts and capital funding sources and balances (i.e. passenger fares, Federal, State and local and capital subsidies). Interest income *does not* include interest received on unearned federal, state and local grant funds.

Auditors are cautioned to pay particular attention to how interest income is reported on the audited Statement of Revenues, Expenses, and Changes in Net Position and on

PennDOT's supporting schedules in accordance with guidance provided for interest/investment income.

Gain/(loss) on disposal of capital assets

Amount represents the gain or loss on asset dispositions.

Auditors are cautioned to pay particular attention to transactions regarding the gain/loss on asset dispositions. Agencies must be in compliance with PennDOT's policy when disposing of capital assets. This policy can be accessed at PennDOT's website at https://www.dot.state.pa.us/public/Bureaus/PublicTransportation/procurement/dispo_procedure.pdfw. All proceeds⁸, including any resulting gain from the transaction, may be used towards operating costs and/or capital expenditures along with the condition that the cost was incurred for the purpose of providing public transportation.

Auditors must disclose instances where agencies are not using PennDOT's Estimated Useful Life asset list as the basis for recording depreciation expense.⁹ This list can be accessed on PennDOT's website at www.penndot.gov/Doing-Business/Transit/InformationandReports. The "Estimated Useful Life for Capital Items" is located in the Resources section.

If the agency disposed of the asset prior to the end of its useful life and prior to being fully depreciated, the auditor must verify that the grantee obtained PennDOT approval prior to the disposal of the asset. Failure of the grantee to provide evidence of PennDOT's approval must result in a finding in state grant compliance review described later in this publication.

A loss on an asset disposal immediately raises the possibility that the asset was retired prior to the end of its useful life and was not fully depreciated. In this case, agencies should be prepared to provide documentation that prior approval was obtained from PennDOT to dispose of the asset prior to the end of its useful life or that the asset was retired prematurely due to other reasons (i.e. accident making the asset unusable for service).

⁸ Federal Transit Administration (FTA) retains an interest in proceeds that exceed \$5,000.

⁹ Not applicable to entities that are using the modified accrual basis of accounting.

3. Supplementary Schedules

The supplementary schedules itemized below are required (i.e., legacy budget reports and schedules not directly required under GAAP applicable for the grantee's organizational form).

Note: Required supplemental schedules are in addition to the Statement of Revenues, Expenses, and Changes in Net Position discussed in section III C (1) above.¹⁰

OBJECTIVE: Ensure that the grantee includes in the audit reporting package the required reports and schedules generated from PennDOT's dotGrants financial reporting system and that this information is consistent and properly reconciled with the financial statements in the audit.

COMPLIANCE REQUIREMENT: Grantees must include, as supplementary schedules to the audited annual financial statements, the legacy budget reports submitted in dotGrants for the same fiscal year's financial activity. Reports and schedules to be provided, where applicable to the reporting grantee in the following order, include:

Fixed Route Grantees

- Expense Reports
 - Fixed Route Expenses
 - Non-Fixed Route ADA Paratransit Expenses
 - Non-Fixed Route Shared Ride Expenses - Standard Service
 - Non-Fixed Route Demand Response Expenses – Department Approved Service
 - Non-Fixed Route Public Vanpool Expenses
 - Non-Public Expenses - Other Transportation
- Revenue Reports
 - Fixed Route Revenue
 - Non-Fixed Route Revenue
 - Non-Public Revenue - Other Transportation
- Subsidy Reports
 - Fixed Route Subsidies
 - Non-Fixed Route Subsidies

¹⁰ In several instances, there are grantees that report on the modified accrual basis of accounting and report on a different fiscal year than PennDOT's fiscal year for the transportation program (i.e. counties that are direct grant recipients and are the transportation provider). Given the difficulty that arises for these entities to accumulate certain information for the supplemental schedules isolated specifically to the transportation program (i.e. Other Post Employment Benefits (OPEBs), pension liabilities, compensated absences and capital assets), a note can accompany the supplemental schedules indicating that these items have been excluded.

- Budget Summary
- Schedules
 - S1 - Local Match Provided
 - S2 - Local Match Carryover
 - S3 and S4 - Urban and Rural PTAF/BSG/ASG Carryover
 - S5 - Urban and Rural Section 1513 Program Carryover
 - Shared Ride Retained Earnings
 - Capital Project Spending Report
- Balance Sheet (two comparable periods) - (**note:** applicable when the audited financials are in aggregate, and not exclusive to the PennDOT program being examined). The Balance Sheet is to delineate the following as applicable in a GAAP compliant format:
 - Cash
 - Receivables
 - Prepaids
 - Inventory
 - Accounts payable and other current liability line items
 - Long term liabilities (e.g., debt and other obligations)
 - Equity/Fund Balance including a breakout of cumulative earnings/losses
- Cash Flow Statement (two comparable periods) - (**note:** applicable when the audited financials are in aggregate, and not exclusive to the PennDOT program being examined). The Cash Flow Statement is to delineate the following activities in a GAAP compliant format:
 - Operating activities with all major components itemized
 - Non-capital financing activities
 - Investing activities with all major components itemized
 - Capital and related financing activities with all major components itemized

Stand-alone Specialized Transportation Grantees:

- Expense Reports
 - Shared Ride Expenses
 - Non-Public Other Transportation Expenses
- Revenue Reports
 - Shared Ride Revenue
 - Non-Public Other Transportation Revenue
- Subsidy Reports
 - Shared Ride Subsidies

- Budget Summary
- Schedules
 - Local Contribution Provided
 - Shared Ride Retained Earnings
 - Capital Project Spending Report
- Balance Sheet (two comparable periods) - (**note:** applicable when the audited financials are in aggregate and not exclusive to the PennDOT program being examined). The Balance Sheet is to delineate the following as applicable in a GAAP compliant format:
 - Cash
 - Receivables
 - Prepaids
 - Inventory
 - Accounts payable and other current liability line items
 - Long term liabilities (e.g., debt and other obligations)
 - Equity/Fund Balance including a breakout of cumulative earnings/losses
- Cash Flow Statement (two comparable periods) - (**note:** applicable when the audited financials are in aggregate, and not exclusive to the PennDOT program being examined). The Cash Flow Statement is to delineate the following activities in a GAAP compliant format:
 - Operating activities with all major components itemized
 - Non-capital financing activities
 - Investing activities with all major components itemized
 - Capital and related financing activities with all major components itemized

Intercity Bus Grantees:

- Expense Reports
 - Intercity Bus Expenses - report for each route
- Revenue Reports
 - Intercity Bus Revenue - report for each route
- Subsidy Reports
 - Intercity Bus Subsidies - report for each route
- Budget Summary
- Schedules
 - Schedule A5 - Intercity Bus Expense Allocation Worksheet
 - Schedule A6 - Intercity Bus Operating Assistance
 - Schedule A7 - Route Financial Statement - schedule for each route

- Schedule A7 - Consolidated Financial Statement - All Routes
- Capital Project Spending Report

Auditors are expected to possess a detailed knowledge of the financial reporting requirements as stipulated in PennDOT's *Financial Reporting Manual* to understand which requirements are applicable to the respective grantee when identifying the reporting standards that govern these reports in and schedules. Both the grantee and its auditor must ensure that the accounting firm's audit opinion applies to these reports and schedules in a consistent manner as described earlier in this publication.

4. Narrative Discussion and Analysis

OBJECTIVE: To provide a comprehensive overview of an entity's operating results.

COMPLIANCE REQUIREMENT: All grantees are responsible for the preparation and submittal of the Narrative Discussion and Analysis. For each annual financial audit, the grantee shall include a section entitled "Narrative Discussion and Analysis" which shall be prepared by grantee management. The MD&A is a required item for entities subject to GAAP for state and local governments and is to precede the required set of financial statements for those grantees. For non-governmental entities subject to GAAP, on the other hand, a Narrative Discussion and Analysis must be provided as a supplement to the audited financial statements. At a minimum, this section will include text related to the results of operations for the fiscal year under audit and the changes in financial and operational activity from the prior fiscal year.

These requirements are intended to provide a narrative of management's explanation of the grantee's financial statements. In addition to the auditor's findings, the MD&A enhances the overall financial disclosure and provides the context within which the grantee's management analyzes its financial results.

In addition to analyzing the results and changes in financial and operational activity, management may provide information about financial and operational performance indicators as well as trends, demands, commitments, events and uncertainties that are reasonably likely to have a material effect on the grantee's financial condition or operating performance. **Note:** Intercity Bus Operators are not required to submit an MD&A to PennDOT outside of the MD&A already provided in the company-wide audit.

IV. GENERAL COMPLIANCE REQUIREMENTS – AGREED UPON PROCEDURES ATTESTATION

As discussed in the Background section of this Publication, if regulation items addressed in this section are not already subject to examination for compliance in the performance of the financial statement audit, the requirements itemized below, as applicable to the grantee, are to be evaluated as part of the PennDOT Compliance Engagement and incorporated in an agreed-upon procedures Engagement.

Note: The general compliance requirements are incremental to procedures outlined in **Sections III C (1) and III C (2)** with respect to PennDOT Supplemental Schedules.

Specific Compliance Requirements by Grant – Subject to Agreed Upon Procedures Attestation (Incremental to the compliance Requirements in Section III)

As part of the agreed upon procedures attestation, this section identifies each PennDOT grant program and contains the incremental grant management compliance requirements that apply to each of them when applicable to the grantee.

PROGRAM: Shared Ride Lottery Program

REGULATION TITLE: Receipt of State Grant Funds

OBJECTIVE: Ensure that State funds received plus any recorded accounts receivable for uncollected funds are verified and consistent with executed grant agreements. Also verify that funds are separately accounted for from other funds and deposited and held in an interest-bearing account(s) until used.

COMPLIANCE REQUIREMENTS: Grantees must execute annual grant agreements with PennDOT in order to obtain funds to be used towards eligible operating expenses. The following requirements related to the amount are:

State Grants Received:

State grant funds received, plus any amount established as an accounts receivable that were due from PennDOT at the end of the fiscal year, must be consistent with the amount of State funds to be granted pursuant to an executed grant agreement. This amount must agree with

the amount reported on the Statement of Revenues, Expenses and Changes in Net Position. Any accounts receivable that were established for any amount of State funding that the grantee did not receive during the fiscal year must also be indicated on the financial statement.

PROCEDURES

Verify receipt and proper accounting treatment for State grants funds by:

1. Verifying State grant funds actual cash amounts received plus any recorded accounts receivable in the grantee's accounting system for the period's outstanding invoices agree with executed grant agreement.
 - a. State grant amounts should be compared to, and be consistent with, the sum of all transactions recorded in the grantee's accounting system as well as agree with amounts reflected on the Statement of Revenues, Expenses and Changes in Net Position and the executed grant agreement.
 - b. Cash amounts received from PennDOT must be verified with actual bank records (bank statements, deposit slips, wire transfers, automatic clearing house transactions (ACH), etc.) On a test basis, any recorded accounts receivable for the period must either be verified by identifying the payment clearing the receivable in the subsequent fiscal year or verified with PennDOT if payment had not yet been received in the next fiscal year or agreed to supporting documentation.
2. Verified that State grant funds are accounted for in a separate general ledger account and deposited and held in an interest-bearing account until used.

PROGRAM: Act 44 Section 1513 Operating Grants

REGULATION TITLE: Receipt of State Grant Funds and Required Local Matching Contributions

OBJECTIVE: Verify that State and local matching contributions, plus any recorded accounts receivable for uncollected funds, are consistent with executed grant agreements. Also verify that funds are separately accounted for from other funds and deposited and held in an interest-bearing account(s) until used and that interest income is separately recorded and accounted for to segregate interest earnings generated from State versus local matching contributions on PennDOT's supporting Schedule S5 – Section 1513 Program Carryover as shown in PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*.

COMPLIANCE REQUIREMENTS: Grantees must execute annual grant agreements with PennDOT in order to obtain funds to be used towards eligible operating expenses. The following

requirements related to the amount and source of local matching contributions must be satisfied during the course of an audit:

State Grants and Local Matching Contribution Amounts Received:

1. State grant funds received, plus any amount established as an accounts receivable due from PennDOT at the end of the fiscal year, must be consistent with the amount of State funds to be granted pursuant to an executed grant agreement. Any accounts receivable that were established for any amount of State funding that the grantee did not receive during the fiscal year must also be clearly and fully disclosed.
2. The required local matching contributions received during the fiscal year must equal, or exceed, the amount stipulated in the executed grant agreement with PennDOT. The required local matching contributions must be received by the grantee by the end of the fiscal year. Disclose any and all occurrences when the minimum required amount of local matching contributions were not received by the grantee during the fiscal year. Furthermore, any accounts receivable that were established for the uncollected amount of local matching contribution must also be disclosed.
3. Both State grant funds and local matching contributions received, plus any applicable accounts receivable, must be consistent with the amounts reported on PennDOT's supporting Schedule S1 –Local Match Provided (Act 44 Section 1513 Local Match for Operating Funds Received) and Schedule S5 – Section 1513 Program Carryover as shown in PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*.
4. Both State and local grant funds must be accounted for in separate general ledger accounts and deposited and held in an interest-bearing account(s) until used. Interest earned on State and local grant funds is to be reported separately on PennDOT's supporting Schedule S5 – Section 1513 Program Carryover as shown in PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*. All interest earnings become part of the respective State and local fund balances and are reported as part of the respective State and local subsidy revenue only when the respective fund balances, or portions thereof, are used towards eligible operating expenses.

PROCEDURES

Verify receipt and proper accounting treatment for State grants funds and required local matching contributions pursuant to executed grant agreement by:

1. Obtaining a copy of the executed grant agreement from the grantee

2. Comparing State grant funds and required local matching contributions in the agreement with actual cash amounts received plus any recorded accounts receivable to ensure consistency.
 - a. State grant and required local matching contribution amounts shown in the executed grant agreements should be compared to, and be consistent with, the sum of all transactions recorded in the grantee's accounting system as well as agree with amounts reflected on PennDOT's supporting Schedule S1 –Local Match Provided (Act 44 Section 1513 Local Match for Operating Funds Received) and Schedule S5 – Section 1513 Program Carryover as shown in PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*.
 - b. Cash amounts received from PennDOT and local contributors should agree with actual bank records (bank statements, deposit slips, wire transfers, automatic clearing house transactions (ACH), etc.) Any recorded accounts receivable must be verified with PennDOT and local contributors.
3. Verify that both State and local grant funds are accounted for in separate general ledger accounts and deposited and held in an interest-bearing account(s) until used.
 - a. Ensure separate accounting for and allocation of interest earned from State grant funds and local matching contributions.
 - b. Amounts must be properly reflected on PennDOT's supporting Schedule S1 – Local Match Provided (Act 44 Section 1513 Local Match for Operating Funds Received) and Schedule S5 – Section 1513 Program Carryover as shown in PennDOT's *Financial Reporting Manual for Urban and Rural Fixed Route Transportation Providers*.

Eligibility of Local Matching Contributions

Adherence to the guidance below is required when determining the eligibility and amount of local matching contributions pursuant to PennDOT regulations:

1. Eligible sources of local matching funds for a local transportation organization shall be cash contributions provided by one or more municipalities or private entities in accordance with paragraph (9).
 - a. The total amount of municipal local match cash contributions for operating assistance cannot be less than the total amount of municipal local match cash contributed in the prior fiscal year.

- b. If the required local match is 15% of the State funding for operating assistance, the municipal local match contribution can be reduced proportionate to any reduction in State operating assistance funding.
2. Advertising revenue may be considered an eligible source of local matching funds for operating assistance grants only if the grantee has received written approval from PennDOT allowing such funds to constitute as local matching funds. In addition, the municipalities responsible for providing all of the local matching funds annually must pass a resolution which:
 - a. Acknowledges their responsibility for providing the local matching funds.
 - b. Agrees to offset any shortfall in advertising revenue received during the fiscal year which results in insufficient local matching funds.
 - c. Acknowledges that any reduction in service or increase in fares due to the net loss of operating revenue associated with the use of advertising revenue as local match is the responsibility of the municipalities which provide local match.
3. If a shortfall in advertising revenue causes the local transportation organization to obtain less than its required operating assistance local matching funds in any fiscal year and the municipality does not offset the shortfall to bring the local match to the minimum required for State operating assistance funding, advertising revenue will no longer be considered an eligible source of local matching funds for the affected local transportation organization in future fiscal years.
4. All categories of local transportation organization operating revenue, including passenger fares, public or private payments provided in lieu of fares including route guarantees, unless the route guarantee revenue is allowed as local match in accordance with paragraph (9); charter or school bus revenue; advertising revenue, unless the advertising revenue is approved for use as local match in accordance with paragraph (3); and interest income or other miscellaneous sources of revenue do not constitute eligible sources of local matching funds.
5. Local bonds issued by local transportation organizations and guaranteed in whole or in part by State funding sources, including interest arbitrage instruments, do not constitute eligible sources of local matching funds for State grants.
6. Income generated from the subsidized public passenger transportation service is not eligible to be used as a source of local matching funds.
7. For a local transportation organization using route guarantee funds as a source of local matching funds prior to the enactment of the act, the following apply for operating assistance funding:

- a. Local matching funds equal to the local matching funds provided by route guarantee funds in State Fiscal Year 2009-10 may continue to come from route guarantee funds.
 - b. Local matching funds in excess of the local matching funds provided in State Fiscal Year 2009-10 must be provided in accordance with paragraph (1). Route guarantee funds are not eligible for this portion of the local matching funds.
 - c. If the amount of local matching funds provided through route guarantee funds is ever decreased to an amount less than the local matching funds provided in State Fiscal Year 2009-10, the lower amount will become the maximum amount of local matching funds which can be provided through route guarantee funds. Local matching funds in excess of the lower amount must be provided in accordance with paragraph (1). Route guarantee funds are not eligible for this portion of the local matching funds.
8. Private sources other than funding from private third-party contractors and route guarantees may be eligible as local match provided that a local transportation organization has:
- a. Requested in writing Department approval of the source and amount of the local match from private sources.
 - b. Provided a written contract between the private source and the local transportation organization prior to submitting an application for State funding.
9. Local transportation organizations may use uncommitted local match reserves for operating assistance if the following apply:
- a. The total local match reserve amount is identified in the most recent audit report and can be traced through transaction detail to the source of the local match.
 - b. The board of the local transportation organization passes a resolution which certifies that the local match reserve to be used for operating assistance is not committed to another project.
 - c. The local transportation organization provides to the municipalities responsible for providing the local match written notification of the amount of local match reserve that will be used in a fiscal year to offset shortfalls in local match payments.

PROCEDURES

Eligibility of the source of local matching contribution funds can be determined by examining documentation (i.e. agreements, cancelled checks, bank deposits, bank statements, wire transfers, Automatic Clearing House (ACH) transfers, etc.) in order to verify the source of the local

matching contributions. Components and the respective amounts of local matching contribution(s), in particular any advertising revenue that was applied towards the local matching contribution, must be clearly disclosed in the audit.

REGULATION TITLE: Restricted Use of State Grants and Local Matching Funds

OBJECTIVE: Verify that State grant funds and local matching contributions were used for operating assistance in accordance with Act 44 legislation.

COMPLIANCE REQUIREMENTS: State grant funds and local matching contributions are to be used only for any grantee's operating expenses and in accordance with the executed agreements between PennDOT and the grantee.

PROCEDURES

The validity of eligible expenditures can be verified by:

1. Testing expenditures to verify that State grant funds and local matching contributions are used for permitted purposes within the fiscal year.
1. **If State funds or local matching contributions were used for capital expenditures within the fiscal year, verify that the grantee obtained written waiver from PennDOT.**

REGULATION TITLE: Accounting for and Use of State and Local Matching Funds

OBJECTIVE: Verify the grantee is properly accounting for State grant funds and related local matching contributions, that interest earnings are separately identified and local matching contributions are used in accordance with Commonwealth requirements.

COMPLIANCE REQUIREMENTS: Separate Accounting for State Grant Funds and Local Matching Contributions

State grant funds and local matching contributions must be separately accounted for and reflect distinct and separate cash and unearned revenue account balances in the grantee's accounting system. These funds are not to be co-mingled with any other accounts used to hold any of the grantee's other operating and/or capital grant funds that are received from any other sources(s). Furthermore, interest income attributed to State grant funds and local matching contributions must be separately identified between the two sources of funds that generated the interest income.

No Ending Local Matching Contribution Balances Permitted

Agencies whose grant agreement requires less than a 15% local operating matching contribution requirement to State grant funds are required to completely draw down these local matching

contributions funds before using any State funds. An exception to this requirement exists under the following conditions:

1. Agencies not yet meeting the 15% threshold are only able to carry over local matching contributions to the extent that they received local matching contributions in excess of the minimum required amount stipulated in the grant agreement and the agency has designated the use of these excess local matching contributions funds. If no excess local matching contributions were received, all prior year Section 1513 funds carried over to the year being reported are to be classified as State funds with zero local match contribution funds on hand.
2. Once an agency reaches the 15% threshold of local matching contributions to State grant funds, the agency is permitted to carry over local matching contributions to the subsequent year even if contributions in excess of the 15% matching requirement were not received. However, local matching contributions spent during the fiscal year must represent at least 15% of State grant funds spent during the fiscal year.

PROCEDURES: Verify that State grant funds and local matching contributions, including respective accumulated interest earnings, are separately accounted for and segregated by:

1. Verifying that State grant funds and local matching contributions are deposited and held in separate bank accounts and are properly reconciled with the grantee's general ledger accounts.
2. In an attempt to minimize the number of bank accounts and reduce bank service charges, grantees are permitted to hold State grant funds and local matching contributions in one single bank account only if the following conditions are met:
 - a. Grantees must establish and maintain separate general ledger cash accounts in their accounting systems and to "jointly" reconcile such general ledger cash accounts to a bank statement from a single Act 44 Section 1513 State and local matching contributions bank account. Standalone spreadsheets or work papers that are used in the reconciliation process, by themselves and in the absence of establishing separate general ledger accounts, are insufficient and unacceptable.
 - b. If the grantee chooses to reconcile two separate general ledger cash accounts to a bank statement from a single Act 44 Section 1513 bank account holding both State and local matching contribution funds, interest income is to be allocated between the State and local general ledger accounts based on the percentage of each general ledger cash account fund balance as a percentage of the combined total fund balance of the two general ledger cash accounts.
 - c. If any local matching contributions are on hand at the end of the fiscal year, the auditor must verify that one of the two aforementioned conditions allowing the

exception are met. If the condition allowing the exception involves a grantee grant agreement where the 15% local matching contribution to State grant funds is involved, the auditor must verify that spending of local matching contributions is at least 15% of State grant funds that were spent.

PROGRAM: ACT 44 SECTION 1516 OPERATING GRANTS – TECHNICAL ASSISTANCE/DEMONSTRATION GRANTS

REGULATION TITLE: Accounting for and Use of Funds and Invoice Submissions

OBJECTIVE: Ensure separate accounting of funds and eligibility of expenditures

COMPLIANCE REQUIREMENTS: Cash and unearned revenue account balances must be separately accounted for and funds are to be used for eligible operating expenditures and the percentage of local matching contribution funds used towards each project’s total operating expenditures must meet the minimum requirements pursuant to executed State grant agreements.

PROCEDURES: Separate accounting for cash and unearned revenue account balances and the validity of eligible operating expenditures and local matching contribution usage percentages can be verified by:

1. Transaction testing should result in verifying that State operating grant funds and local matching contributions are used for permitted purposes. Verify the payments and use of local matching contributions.
2. Separate general ledger accounts must be established to account for State grant funds and local matching contributions.

Minimum Local Matching Contributions

The percentage of local matching contribution funds used towards total operating assistance must meet the minimum requirements in relation to State operating expenditures pursuant to executed State operating grant agreements.

PROCEDURES: The validity of eligible operating expenditures and local matching contribution usage percentages can be verified by:

1. Testing expenditures to verify that State Act 44 operating grant funds under the relative appropriate section and local matching contributions are used for permitted purposes.
2. Verifying the amount of local matching contributions spent on and the percentage of total funding the local match represented for operating assistance that was funded by the State.

PROGRAM: ACT 44 SECTION 1516: PROGRAMS OF STATEWIDE SIGNIFICANCE – INTERCITY BUS

REGULATION TITLE: Receipt of Federal, State Grant Funds and Required Local Matching Contributions

OBJECTIVE: Verify Federal, State and local matching contributions, plus any recorded accounts receivable for uncollected funds in the grantee’s accounting system, are consistent with executed grant agreements. Also ensure funds are deposited and held in an interest-bearing account(s) until used and that interest income is separately recorded and accounted for to segregate interest earnings generated from Federal, State and local matching contributions on PennDOT’s supporting Schedule A6 – Act 44 Section 1516 and Federal 5311 Transit Operating Assistance as shown in PennDOT’s *Financial Reporting Manual for Intercity Bus Operators*.

COMPLIANCE REQUIREMENTS: Grantees must execute annual grant agreements with PennDOT in order to obtain funds to be used towards eligible operating expenses. The following requirements related to the amount and source of local matching contributions must be satisfied during the course of an audit:

Federal 5311 Grant Funds Used:

1. Federal 5311 grant funds received, plus any amount established as an accounts receivable that was due from PennDOT at the end of the fiscal year, must be consistent with the amount of Federal 5311 funds to be granted pursuant to an executed grant agreement. Any accounts receivable that were established for any amount of Federal funding that the grantee did not receive during the fiscal year must also be clearly and fully disclosed.
2. The amount of Federal 5311 grant funds that the grantee can use towards its operations cannot exceed 50% of the fiscal year’s *actual* operating deficit. This condition applies regardless if the grantee received Federal 5311 grant funds in excess of 50% of the actual operating deficit that occurred at the completion of the fiscal year. Any remaining Federal 5311 grant funds must be carried over to the following fiscal year and held in an interest-bearing account and are subject to PennDOT’s action to recover overpayments.

State Grants and Local Matching Contribution Amounts Used:

1. State grant funds received, plus any amount established as an accounts receivable that was due from PennDOT at the end of the fiscal year, must be consistent with the amount of State funds to be granted pursuant to an executed grant agreement. Any accounts receivable that were established for any amount of State funding that the grantee did not receive during the fiscal year must also be clearly and fully disclosed.

2. The amount of State grant funds that the grantee used towards its operations cannot exceed 50% of the fiscal year's remaining operating deficit after Federal 5311 grant funds have been applied. Any remaining State grant funds must be carried over to the following fiscal year and held in an interest-bearing account and applied to the subsequent year's operating deficit.
3. Any operating deficit remaining after applying Federal and State grant funds are to be fully funded with local matching contributions. The required local matching contributions received during the fiscal year must equal, or exceed, the amount stipulated in the executed grant agreement with PennDOT. The required local matching contributions must be received by the grantee by the end of the fiscal year. Auditors are required to fully disclose any and all occurrences when the minimum required amount of local matching contributions were not received by the grantee during the fiscal year. Furthermore, any accounts receivable that were established for the uncollected amount of local matching contribution must also be clearly and fully disclosed.
4. Federal, State and local grant funds must be maintained in separate general ledger accounts and deposited and held in interest bearing accounts until used. All interest earnings become part of the respective Federal, State and local fund balances and are reported as part of the respective Federal, State and local subsidy revenue only when the respective fund balances, or portions thereof, are used towards eligible operating expenses.

PROCEDURES

Verify receipt and proper accounting treatment for State grants funds and required local matching contributions pursuant to executed grant agreement by:

1. Obtaining a copy of the executed grant agreement from the grantee
2. Comparing Federal, State grant funds and required local matching contributions in the agreement with actual cash amounts received plus any recorded accounts receivable to ensure consistency.
 - a. Federal, State and required local matching contribution amounts shown in the executed grant agreements should be compared to, and be consistent with, the sum of all transactions recorded in the grantee's accounting system.
 - b. Cash amounts received and accounts from PennDOT and local contributors should be verified with actual bank records (bank statements, deposit slips, wire transfers, automatic clearing house transactions (ACH), etc.) Any recorded accounts receivable must be verified with PennDOT and local contributors.

3. Verify Federal, State and local grant funds are maintained in separate general ledger accounts and deposited and held in interest-bearing accounts until used. Verify separate accounting for and allocation of interest earned from Federal, State and local matching contributions.

REGULATION TITLE: Accounting for and Use of Federal, State and Local Matching Funds

OBJECTIVE: Verify the grantee is properly accounting for Federal and State grant funds and related local matching contributions, that interest earnings are separately identified and local matching contributions are used in accordance with Commonwealth requirements.

COMPLIANCE REQUIREMENTS: Separate Accounting for Federal and State Grant Funds and Local Matching Contributions

Federal and State grant funds and local matching contributions must be separately accounted for and reflect distinct and separate fund balances in the grantee's accounting system. These funds must not be co-mingled with any other accounts used to hold any of the grantee's other operating and/or capital grant funds that are received from any other sources(s). Furthermore, interest income attributed to Federal and State grant funds and local matching contributions must be separately identified between the three sources of funds that generated the interest income.

PROCEDURES: Verify that Federal and State grant funds and local matching contributions, including respective accumulated interest earnings, are separately accounted for and segregated by:

1. Verifying that Federal and State grant funds and local matching contributions are deposited and held in separate bank accounts and are properly reconciled with the grantee's general ledger accounts.
2. In an attempt to minimize the number of bank accounts and reduce bank service charges, grantees are permitted to hold Federal and State grant funds and local matching contributions in one single bank account only if the following conditions are met:
 - a. Grantees must establish and maintain separate general ledger cash accounts in their accounting systems and to jointly reconcile such general ledger cash accounts to a bank statement from a single Federal 5311, State Section 1516 and local matching contributions bank account. Standalone spreadsheets or work papers that are used in the reconciliation process, by themselves and in the absence of establishing separate general ledger accounts, are insufficient and unacceptable.
 - b. If the grantee chooses to reconcile two separate general ledger cash accounts to a bank statement from a single bank account holding both Federal and State

grant funds and local matching contribution funds, interest income is to be allocated between the Federal, State and local general ledger accounts based on the percentage of each general ledger cash account fund balance as a percentage of the combined total fund balance of the two general ledger cash accounts.

PROGRAM: PTAF CAPITAL GRANTS

REGULATION TITLE: Authorized Use of Grant Funds Towards Eligible Capital Expenditures

OBJECTIVE: Verify the use of State PTAF grant funds and local matching contributions were used for capital expenditures in accordance with Act 26 legislation and executed Federal and/or State capital grant agreements.

COMPLIANCE REQUIREMENTS: Annual PTAF capital funds were last distributed to grantees under Act 26 during Fiscal Year 2006-07. Some grantees continue to have remaining State PTAF cash balances along with cash balances of related local matching contributions that grantees were required to obtain as part of their agreements with PennDOT. The following requirements related to the restricted use of funds and the percentage of local matching funds used by project must be satisfied during the course of an audit.

Restricted Use of State PTAF Grants and Associated Local Matching Contributions

State PTAF grant funds and local matching contributions are only to be used for a grantee's capital expenditures. Local matching contributions should be on hand at the grantee and the minimum required amount must be used towards capital projects pursuant to Federal and/or State capital grant agreements.

Minimum Local Matching Contributions

The percentage of local matching contribution funds used towards each project's total capital expenditures must meet the minimum requirements in relation to Federal and/or State capital expenditures pursuant to executed Federal and/or State capital grant agreements.

PROCEDURES: The validity of eligible capital expenditures and local matching contribution usage percentages can be verified by:

1. Testing expenditures to verify that State PTAF grant funds and local matching contributions are used for permitted purposes.
2. Verifying the amount of local matching contributions spent on and the percentage of the total funding the local match represented for each capital project funded by Federal and State PTAF capital grant funds.

REGULATION TITLE: Accounting for State and Local Matching Contributions

OBJECTIVE: Ensure that the grantee is properly accounting for State PTAF grant funds and local matching contributions.

COMPLIANCE REQUIREMENTS: State PTAF grant funds and local matching contributions must be separately accounted for by maintaining separate cash and unearned revenue account balances in the grantee’s accounting system until funds are used. These funds must not be commingled with any other accounts used to hold any of the grantee’s other operating and/or capital grant funds that are received from any other sources(s). Furthermore, interest income attributed to State PTAF grant funds and local matching contributions must be separately identified between the two sources of funds that generated the interest income.

PROCEDURES: Verify that State PTAF grant funds and local matching contributions, including respective accumulated interest earnings, are separately accounted for and segregated by:

1. Verifying that State PTAF grant funds and local matching contributions are deposited and held in separate bank accounts and are properly reconciled with the grantee’s general ledger accounts.
2. In an attempt to minimize the number of bank accounts and reduce bank service charges, grantees are permitted to hold State PTAF grant funds and local matching contributions in one single bank account only if the following conditions are met:
 - a. Grantees must establish and maintain separate general ledger cash accounts in their accounting systems and to jointly reconcile such general ledger cash accounts to a bank statement from a single State PTAF and local matching contributions bank account. Standalone spreadsheets or work papers that are used in the reconciliation process, by themselves and in the absence of establishing separate general ledger accounts, are insufficient and unacceptable.
 - b. If the grantee chooses to reconcile two separate general ledger cash accounts to a bank statement from a single PTAF bank account holding both State PTAF and local matching contribution funds, interest income is allocated between the State PTAF and local general accounts based on the percentage of each general ledger cash account fund balance as a percentage of the combined total fund balance of the two general ledger cash accounts.

PROGRAM: ACT 3 BSG AND ASG GRANTS

REGULATION TITLE: Authorized Use of Grant Funds Towards Eligible Expenditures

OBJECTIVE: Verify the use of State Act 3 BSG and ASG grant funds and associated local matching contributions were used in accordance with Act 3 legislation and grant agreements.

COMPLIANCE REQUIREMENTS: Annual Act 3 BSG and ASG funds were last distributed to grantees during Fiscal Year 2006-07. Some grantees continue to have remaining State BSG and ASG cash balances along with cash balances of associated local matching contributions. The following requirements related to the restricted use of funds and the percentage of local matching funds used by project must be satisfied during the course of an audit.

Restricted Use of State Act 3 BSG and ASG Grants and Associated Local Matching Contributions

Both *Urban* and *Rural* transit systems are permitted to use State BSG grant funds for either eligible operating and/or capital expenditures. Urban systems are able to use ASG grant funds only for eligible capital eligible expenditures while Rural systems are permitted to use ASG funds on either eligible operating and/or capital expenditures. These same conditions apply to associated local matching contributions that have been received by the grantee. Local matching contributions should be on hand at the grantee and the minimum required amount must be used towards operating assistance and/or capital projects pursuant to Federal and/or State capital grant agreements.

Minimum Local Matching Contributions

The percentage of local matching contribution funds used towards each project's total operating assistance and/or capital expenditures must meet the minimum requirements in relation to Federal and/or State capital expenditures pursuant to executed Federal and/or State capital grant agreements.

PROCEDURES: The validity of eligible operating and/or capital expenditures and local matching contribution usage percentages can be verified by:

1. Testing expenditures to verify that State Act 3 BSG and ASG grant funds and local matching contributions are used for permitted purposes.
2. Verifying the amount of local matching contributions spent on and the percentage of total funding the local match represented for operating assistance and/or each capital project that was funded by Federal and State capital grant funds.

REGULATION TITLE: Accounting for State and Local Matching Contributions

OBJECTIVE: Verify the grantee is properly accounting for State Act 3 BSG and ASG grant funds and local matching contributions.

COMPLIANCE REQUIREMENTS: State Act 3 BSG and ASG grant funds and local matching contributions must be separately accounted for by maintaining separate fund balances in the grantee’s accounting system until funds are used. **BSG and ASG funds are not to be comingled** with any other accounts used to hold any of the grantee’s other operating and/or capital grant funds that are received from any other sources(s). Furthermore, interest income attributed to State PTAF grant funds and local matching contributions must be separately identified between the two sources of funds that generated the interest income.

PROCEDURES: Verify that State Act 3 BSG and ASG grant funds and local matching contributions to State Act 3 BSG and ASG funds, including respective accumulated interest earnings, are separately accounted for and segregated by:

1. Verifying that State Act 3 BSG and ASG grant funds and local matching contributions are deposited and held in separate bank accounts and are properly reconciled with the grantee’s general ledger accounts. Act 3 BSG and ASG local matching contributions must not be co-mingled.
2. In an attempt to minimize the number of bank accounts and reduce bank service charges, grantees are permitted to hold State Act 3 BSG and ASG grant funds and local matching contributions in two bank accounts (one holding State Act 3 BSG funds and the associated local matching contributions and another bank account holding State ASG funds and the associated local matching contributions) only if the following conditions are met:
 - a. Grantees must establish and maintain separate general ledger cash accounts in their accounting systems and to jointly reconcile such general ledger cash accounts to a bank statement from the single State Act 3 BSG and local matching contributions bank account and the single State Act 3 ASG and local matching contribution bank account. Standalone spreadsheets or work papers that are used in the reconciliation process, by themselves and in the absence of establishing separate general ledger accounts, are insufficient and unacceptable.
 - b. If the grantee chooses to reconcile separate general ledger cash accounts to bank statements from separate BSG and ASG bank accounts holding both State Act 3 BSG funds and local matching contribution funds and the other holding State Act 3 ASG funds and local matching contributions, interest income is to be allocated between the State and local general accounts based on the percentage of each

general ledger cash account balance as a percentage of the combined total fund balance of the separate general ledger cash accounts.

PROGRAM: Act 44 Section 1514: Asset Improvement Program, Section 1515: New Initiatives Program, Section 1516: Programs of Statewide Significance, and Section 1517: Capital Improvements Program

REGULATION TITLE: Accounting for and Use of Funds and Invoice Submissions

OBJECTIVE: Verify separate accounting of funds received and eligibility of expenditures and timely submission of invoices

COMPLIANCE REQUIREMENTS: Funds are to be used for eligible capital expenditures and the percentage of local matching contribution funds used towards each project's total capital expenditures must meet the minimum requirements pursuant to executed State grant agreements. Separate accounting for receipt of funds and maintenance of account balances must be ensured.

PROCEDURES: The timeliness and validity of eligible capital expenditures and local matching contribution usage percentages can be verified by:

1. Transaction testing should result in verifying that State capital grant funds and local matching contributions are used for permitted purposes. Verify the payments and use of local matching contributions spent on each capital project that was funded with State capital grant funds.
2. Verify all grant receipts from all sources (federal, state and local) and all spending figures reflected on grantee's Capital Project Spending Report. Auditors should ensure that all figures by project agree with grantee's fixed asset system, general ledger and any other related accounting records that the grantee uses to monitor grants and capital expenditures for all projects.
3. A separate general ledger account(s) must be established to record the receipt of all grant funds and maintain any remaining account balances.

Minimum Local Matching Contributions

The percentage of local matching contribution funds used towards each project's total operating assistance and/or capital expenditures must meet the minimum requirements in relation to

Federal and/or State capital expenditures pursuant to executed Federal and/or State capital grant agreements.

PROCEDURES: The validity of eligible operating and/or capital expenditures and local matching contribution usage percentages can be verified by:

1. Testing expenditures to verify that State Act 44 capital grant funds under the relative appropriate section and local matching contributions are used for permitted purposes.
2. Verifying the amount of local matching contributions spent on and the percentage of total funding the local match represented for operating assistance and/or each capital project that was funded by Federal and State capital grant funds.

PROGRAM: Applicability of Federal Single Audit Requirement Pursuant to OMB Uniform Guidance

REGULATION TITLE: Single Audit Requirement

OBJECTIVE: Verify Single Audit requirement is fulfilled pursuant to OMB Uniform Guidance.

COMPLIANCE REQUIREMENTS: Single Audit is to be performed pursuant to OMB Uniform Guidance if grantee receives \$750,000 or more in federal grant funding

PROCEDURES: Determine applicability of Single Audit requirement:

1. Verify the amount of federal grant funding expended during the fiscal year by obtaining a copy of the entity's schedule of expenditures of federal awards.
2. If federal expenditures meet or exceeds the \$750,000 threshold, disclose the reason the grantee did not have a Single Audit performed.

PROGRAM: Asset Useful Life - Depreciation

REGULATION TITLE: Compliance with PennDOT's Estimated Useful Life Asset List¹¹

OBJECTIVE: Verify grantee's use of PennDOT's Estimated Useful Life List

¹¹ Not applicable to entities that are using the modified accrual basis of accounting.

COMPLIANCE REQUIREMENTS: Grantee is to use PennDOT's Estimated Useful Life List as the basis for the calculation and recording of depreciation expense and accumulated depreciation

PROCEDURES: Examine assets in grantee's fixed asset system and depreciation schedules:

1. Identify useful life of assets in grantee's fixed asset system and depreciation schedules and compare to the useful life for assets as shown in PennDOT's Estimated Useful Life List. This list can be accessed on PennDOT's website at www.penndot.gov/Doing-Business/Transit/InformationandReports.
2. Disclose instances where the grantee is using a useful life that deviates from PennDOT's Estimated Useful Life List.

V. SPECIAL AGREED-UPON PROCEDURES – INTERCITY BUS OPERATORS ONLY

Intercity bus operators are to submit their most recent annual audit along with the Independent Accountants' Report on Applying Agreed Upon Procedures pursuant to the procedures below:

1. Verify that all amounts reported were derived from the trial balance for the July 1st to June 30th period to coincide with the contract period. In addition, verify that all amounts reported and/or computed on an allocation basis were derived from the trial balance that was used was generated from the grantee's same accounting system that generated the trial balance that was used in the most recent annual audit report of the grantee's overall financial results.
2. Verify that that there is a proper cutoff for all transactions and disclose instances where the grantee included transactions that were outside of the July 1st to June 30th contract period. This is particularly important where the entity operates on a different fiscal period than the contracted routes.
3. For the contracted route(s), provide an explanation of whether the grantee is arriving at and accounting for revenues, expenses and subsidies on a direct charge basis, an allocation basis or a combination of the two charging methodologies.
 - a. For all transactions identified as pertaining solely to the contracted route(s) and such transactions are recorded in the grantee's accounting system on a direct charge basis for these routes, verify that the grantee has established and maintains separate general ledger accounts for all transaction revenue, expense and subsidy transactions pertaining only to the contracted route(s). Verify that at no time transaction activity for the contracted routes and the grantee's other operations have been recorded in the same general ledger account(s). Verify that

all reported amounts for the contracted route(s) agree with the amounts reported in the respective general ledger accounts. All differences are to be disclosed.

- b. For all transactions that are not recorded and accounted for on a direct charge basis and the grantee utilizes an allocation methodology to record and report the amounts from such transactions, identify all amounts for each account that was the result of an allocation and provide an explanation of the allocation methodology that was utilized as the basis for the reported amounts.
 - i. For all allocated amounts, identify the allocation factor (i.e. vehicle miles, passenger miles, drivers' hours, mechanics' hours, time study, etc.) that was used as the basis for each of the reported amounts. Review the grantee's records to compute and determine the accuracy of the allocation factor(s) that were used to derive the percentage of each factor that pertained to the contracted route(s). Identify the grantee's records that were reviewed and explain the calculation that was used to determine the accuracy of the grantee's allocation(s). To further verify the accuracy of the allocation(s), test, on a sample basis, the detailed records associated with each allocation factor (i.e. trip sheets to verify mileage, passenger counts, payroll time sheets, etc.) that was used to ensure the accuracy of the allocation percentage(s).
 - ii. After testing the accuracy of the allocation percentage(s) in the previous paragraph, provide an explanation of how each allocation percentage was applied in order to assess the accuracy of the reported revenues, expenses, subsidies and operating deficit.
 - c. Test the accuracy, eligibility and utilization of federal and state grants as well as the required local contribution pursuant to the procedures provided on pages 42-45 of this publication.
4. Compare all amounts for the fiscal year being reported to PennDOT in the grantee's (1) Budget Summary, (2) Schedule A6 – Intercity Bus Operating Assistance, and (3) Schedule A7 - Consolidated Financial Statement - All Routes to the trial balance pertaining to the same reporting period (July 1st to June 30th fiscal year) and other supporting documents that were examined. Disclose all differences in its Report on Applying Agreed Upon Procedures.

The Report on Applying Agreed Upon Procedures is to include the reports and schedules shown on page 31 of this publication.