

# ACCOUNTING & AUDITING GUIDELINES

## INTRODUCTION

The purpose of this brochure is to outline for regional transportation planning agencies (RTPA) the basic elements of an adequate accounting system, and the types and objectives of audits that will be performed in relation to the receipt of state and federal funds. In order to successfully meet the audit requirements, a RTPA must have a system of record keeping and internal control. Although a specific cost accounting system is not required, a RTPA needs a system which will assure compliance with the terms of the master fund transfer agreement and/or grant agreement. State or federal agencies may, through a risk based approach, perform audits of selected agencies or grant agreements. The determination of such audits includes but is not limited to the following factors:

- The amount of the grants and/or agreements;
- History of satisfactory performance;
- Prior FAR compliant history and audit frequency;
- Financial stability;
- Conformance to terms and conditions of previous grants and agreements;
- General responsiveness and responsibility;
- The type and complexity of the RTPA accounting system;
- Responses to the Internal Control Questionnaire;
- Changes in organizational structure;
- Changes to RTPA accounting system.

If audited or reviewed, grants, agreements and Indirect Cost Rates shall be modified to conform to audit and review recommendations.

## ACCOUNTING SYSTEM

RTPAs must have an accounting system which meets the following objectives:

1. The ability to record and report financial data in accordance with generally accepted accounting principles.
2. A system of record keeping to ensure that costs billed to state and federal agencies are:
  - a. Supported by adequate documentation.
  - b. In compliance with the terms of the grant or agreement and applicable state and federal regulations specified in the grant or agreement.
3. A system of record keeping that ideally includes the following:
  - a. General Ledger
  - b. Job Cost Ledger
  - c. Labor Distributions
  - d. Time Records
  - e. Subsidiary Journals
  - f. Chart of Accounts
  - g. Financial Statements
4. The ability to accumulate and segregate reasonable, allocable (incurred solely for the grant, agreement or work element) and allowable (per the terms of the grant or agreement) costs through the use of a cost accounting system. The following are some of the attributes which would ideally be found in such a system:

- a. A chart of accounts which includes indirect and direct general ledger accounts. Indirect costs are not specifically identified to a grant, agreement or work element, for example, rent and/or utilities. Direct costs are specifically identified with a grant, agreement or work element, for example, hours spent developing a corridor plan and/or modeling hours.
  - b. Segregation of costs by grant/agreement/work element, category of costs and milestones (if applicable).
  - c. Proper recording of direct and indirect costs. For example, recording of labor costs should provide that indirect hours be recorded on a time sheet and in the accounting records to an administration, vacation, sick leave or other indirect cost account/code/work element. Direct hours should be recorded on a time sheet and in the accounting records to a direct cost account/code/work element.
  - d. Consistent accounting treatment of costs in recording and reporting. For example, if travel expense is charged directly to a grant/agreement/work element, all travel expense incurred on any project should be considered direct costs. As a result, project-related travel, whether reimbursable per the grant/agreement terms or not, should be included as a direct cost in the accounting records.
  - e. Ability to trace from invoices submitted to state or federal agency to job cost records and original, approved source documents, for example, time sheets, vendor invoices, and cancelled checks.
  - f. Ability to reconcile job cost records to the accounting records.
5. Compliance with cost principles described in the Code of Federal Regulations, 48, Federal Acquisition Regulations System (FAR), Chapter 1, Part 31.
  6. Procedures to monitor and adjust projected indirect rates to actual rates.
  7. Controls to ensure that written approval is obtained prior to any changes to the grant/agreement/work element.
  8. Procedures to retain accounting records and source documentation as required by the terms of the grant/agreement.
  9. A system of internal control which provides reasonable assurance that assets are protected; financial data, records and statements are reliable and that internal irregularities are promptly discovered, reported and corrected. The elements a system of internal control should include, but not be limited to the following:
    - a. Separation of duties for proper protection of assets. Incompatible duties are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of business. For example, the person who prepares the checks should be different from the person who reconciles the bank statements and the person who purchases goods should be different from the person who receives goods.
    - b. Limiting access to assets to only authorized personnel who require these assets in the performance of their assigned duties. For example, blank check stock should be locked in a safe when not in use.
    - c. Authorization and record keeping procedures which provide effective accounting control over assets, liabilities, revenues and expenditures.
    - d. A system of practices to be followed in the performance of duties and functions. Such a system normally includes policies and procedures which establish the purpose and requirements of the accounting system. For example, time keeping practices should ideally provide for the following:
      1. Time sheets prepared, signed and dated by all employees;

2. Time sheets completed in non-erasable ink;
  3. Time sheet corrections crossed out and initiated by the employee;
  4. Time sheets signed by a supervisor as reviewed and retained on file as required by the grant/agreement.
- e. Personnel with skills and training commensurate with their responsibilities.
- f. A system of internal review. For example, bank reconciliations and travel expense claims should be reviewed, approved and signed by a supervisor.

## AUDITS

This section outlines the audit and review process for state and federally funded grants/agreements. All grants/agreements and supporting documents are subject to audit and/or review by Caltrans Audits and Investigations, other state audit organizations and/or the federal government. The following audits may be performed:

- Indirect Cost Rate (ICR) Audits
- Incurred Cost Audits
- Financial Management System Reviews
- Risk Assessments

**Indirect Cost Rate (ICR) Audits:** During an ICR audit, the auditors will examine the RTPA's Indirect Cost Allocation Plan and Rate to ensure that unallowable costs have been removed from the indirect cost pool, that allowable costs have been correctly measured and properly allocated and that the ICR has been developed in accordance with the federal cost principles. As a result of the audit, the ICR will be adjusted to reflect the audit recommendations.

**Incurred Cost Audits:** During an Incurred Cost Audit, the auditors will review grants/agreements to determine if costs claimed are 1) adequately supported; 2) reasonable in nature and amount; 3) allowable, allocable and reasonable; 4) in compliance with state and federal laws and regulations; 5) in compliance with the fiscal provisions stipulated in the grant/agreement.

**Financial Management System Review:** During a Financial Management System Review, the auditors will determine: 1) whether the accrual basis of accounting was used to prepare the ICR; 2) whether there is a cost accounting system adequate to accumulate and segregate reasonable, allowable and allocable costs; 3) the RTPA complied with state and federal regulations.

**Risk Assessment:** During a Risk Assessment, the auditors may require completion of an internal control questionnaire and may perform a certain level of analytical review.

## APPLICABLE AUDIT CRITERIA & STANDARDS

State and federal requirements listed below serve as the standards for audits and reviews performed. The RTPAs are responsible for complying with state and federal requirements. Applicable standards are:

- Caltrans Local Assistance Procedures Manual (LAPM)
- 2 Code of Federal Regulations Part 200
- United States Government Accountability Office, *Government Auditing Standards*
- Specific grant/agreement terms and conditions.

