AGENCY

Policies & Procedures Manual for the Administration of Subrecipient Agreements

May 2026

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CHAPTER 1: MONITORING PASS-THROUGH FUNDS

INTRODUCTION

AGENCY is a Metropolitan Planning Organization (MPO) mandated by the Federal and State governments to develop regional plans for transportation, growth management, air quality and other issues of regional significance. AGENCY functions as the RTPA/MPO for (*describe geographical area*)

AGENCY receives Federal funds through the California Department of Transportation (Caltrans). Federal sources of funds primarily include the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) Consolidated Planning Grant funds (CPG). These funds are administered through the Master Fund Transfer Agreement (MFTA) between Caltrans and AGENCY. (See Appendix A - MFTA.) CPG funds are a primary source of funding for AGENCY's annual Overall Work Program (OWP) that is approved by FTA/FHWA.

The following fund sources are governed by the terms and conditions of the MFTA, as included in each annual Overall Work Program Agreement (OWPA) between AGENCY and Caltrans:

- FHWA-- Metropolitan Planning
- FHWA-- Partnership Planning
- FTA Metropolitan Planning-- Section 5303
- FTA State Planning and Research-Section 5304
- Any other Federal or State Funds administered by and through Caltrans, Office of Regional and Interagency Planning

AGENCY and its subrecipients have access to the Regional Planning Handbook developed by the Caltrans Headquarters Office of Regional and Interagency Planning (ORIP) as a resource to describe the interactions between Caltrans District 5 staff, ORIP staff, Metropolitan Planning Organizations (MPOs), Regional Transportation Planning Agencies (RTPAs) on the Overall Work Program (OWP) and the Regional Transportation Plan (RTP).

1. PURPOSE

The purpose of this policy is to ensure that subrecipients agree to comply with Code of Federal Regulations, Title 2, Chapter 2, Part 200. It is the intent of this policy to document AGENCY's procedures to ensure that grants awarded are consistent with Federal, State and AGENCY priorities and that payments made to subrecipients are for costs associated with activities and/or products identified in the Continuing Cooperative Agreement and that such costs are allowable and eligible for reimbursement. This manual also provides procedures that AGENCY will follow to exercise oversight of the subrecipients and the procedures that the subrecipients will follow to ensure compliance with Federal and State laws and regulations.

Section I describes the Federal and State regulations and procedures AGENCY will implement to ensure compliance by subrecipients receiving these grant funds.

Section II describes the responsibilities of the subrecipients of AGENCY grant awards.

2. APPLICABILITY

The procedures in this policy apply to AGENCY and its subrecipients seeking to receive grant funds from AGENCY. All subrecipients of Federal and/or State grant funds through AGENCY are subject to the same Federal and State requirements as AGENCY. (See Section I).

3. SUBRECIPIENTS

Subrecipients are non-Federal entities that expend Federal grant awards or State funds received from a pass-through entity to carry out a Federal and/or State program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. A subrecipient may also be a recipient of State funds directly from a State agency. Whether the subrecipient receives awards from a Federal agency or State agency or a pass-through entity, the subrecipient is subject to the same Federal and State regulations as the pass-through entity.

AGENCY is considered a "pass-through entity" in relation to its subrecipients, and as such requires that its consultants and subrecipients comply with the applicable terms and conditions (flow-down provisions) of the MFTA and fund requirements. A "pass-through entity" is defined as a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program. (CFR Title 2, Chapter 2, Part 200)

AGENCY's subrecipients include, but are not limited to, transportation commissions, transit agencies, cities, counties, councils of government and other public, private and/or non-profit agencies. Agreements with these subrecipients take the form of Memorandum of Understanding (MOU), Funding Agreements, or similar agreements. AGENCY's agreements with its subrecipients are documented through Continuing Cooperative Agreements (CCA). (See Appendix B, CCA Template).

SECTION I: REGULATORY PROCEDURES FOR SUBRECIPIENTS

Subrecipients are subject to the same Federal and State requirements as AGENCY. AGENCY's MFTA with Caltrans requires AGENCY and its contractors, subcontractors and subrecipients to comply with Federal and State requirements set forth in the

MFTA.

Applicable Federal regulations include, but are not limited to, the following:

The Code of Federal Regulations, Title 2, Chapter 2, Part 200;

(a)(1) This part establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities, as described in §200.101 Applicability. Federal awarding agencies must not impose additional or inconsistent requirements, except as provided in §§200.102 Exceptions and 200.210 Information contained in a Federal award, or unless specifically required by Federal statute, regulation, or Executive Order.
(2) This part provides the basis for systematic and periodic collection and uniform submission by Federal agencies of information on all Federal financial assistance programs to the Office of Management and Budget (OMB). It also establishes Federal policies related to the delivery of this information to the public, including through the use of electronic media. It prescribes the manner in which General Services Administration (GSA), OMB, and Federal agencies that administer Federal financial assistance programs are to carry out their statutory responsibilities under the Federal Program Information Act (31 U.S.C. 6101-6106).

(b) *Administrative requirements.* Subparts B through D of this part set forth the uniform administrative requirements for grant and cooperative agreements, including the requirements for Federal awarding agency management of Federal grant programs before the Federal award has been made, and the requirements Federal awarding agencies may impose on non-Federal entities in the Federal award.

(c) *Cost Principles.* Subpart E—Cost Principles of this part establishes principles for determining the allowable costs incurred by non-Federal entities under Federal awards. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal Government participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by statute.

(d) *Single Audit Requirements and Audit Follow-up.* Subpart F—Audit Requirements of this part is issued pursuant to the Single Audit Act Amendments of 1996, (31 U.S.C. 7501-7507). It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards. These provisions also provide the policies and procedures for Federal awarding agencies and pass-through entities when using the results of these audits.

(e) For OMB guidance to Federal awarding agencies on Challenges and Prizes, please see M-10-11 Guidance on the Use of Challenges and Prizes to Promote Open

Government, issued March 8, 2010, or its successor.

Federal Transit Administration, Circular C 4220.1F, Third Party Contracting Requirements
This circular sets forth the requirements a grantee must adhere to in the solicitation, award and administration of its third-party contracts.

Federal Transit Administration, Circular C 5010.1E, Grant Management Guidelines

The purpose of this circular is to provide guidelines and management procedures for Metropolitan Planning grants, Capital Program grants and Urbanized Area Formula grants for assistance programs of the Federal Transit Administration (FTA), after award.

Federal Transit Administration, Circular C 8100.1C, Program Guidance and Application Instructions for Metropolitan Planning Grants

This circular provides application instructions and program guidance instructions for the preparation of Metropolitan Planning Program (MPP) grant applications for funds authorized by 49 U.S.C. 5303.

The Code of Federal Regulations, Title 2, Chapter 2, Part 200 may be accessed on the Internet at *http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl*

The Federal Transit Administration circulars may be accessed at *http://www. fta.dot.gov/laws/circulars.*

Subrecipients should review the above Federal regulations so that they can comply with the requirements.

Subrecipients must also comply with the Federal Certifications and Assurances, including the Lobbying Certification, published annually in AGENCY's OWP, as required by the MFTA. (Appendix A).

Subrecipients must also comply with the Caltrans ***Local Assistant Procedures Manual*** Chapter 5, Accounting/Invoicing (LPP 04-10) when seeking reimbursement of indirect costs or including indirect costs in the in-kind match amount. In instances where AGENCY authorizes a subrecipient to retain a consultant(s) to perform work, the consultant selection process must comply with competitive selection requirements under CFR Title 2, Part 200 and State law and procedures, including the Caltrans ***Local Assistance Procedures Manual*** and Local Program Procedure (LPP 00-05) at *www.dot.ca.gov/hq/LocalPrograms/lam/lapm.htm*. Further, subrecipients must incorporate all applicable flow-down requirements (from the CCA or other funding agreement between AGENCY and the subrecipient), including the Federal and State requirements described above, into such consultant(s) contracts.

A. AGENCY SUBRECIPIENT MONITORING AND MANAGEMENT

In accordance with CFR Title 2, Chapter 2, Part 200.331, AGENCY performs subrecipient monitoring and management. AGENCY utilizes various methods to monitor subrecipients and ensure compliance with Federal and State regulations. AGENCY oversees all procurement of consultants for subrecipients to ensure that procurements are conducted in accordance with CFR Title 2, Chapter 2, Part 200.

AGENCY will evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. At a minimum, AGENCY subrecipient monitoring and management will include:

- The completion of a subrecipient risk assessment which evaluates:

    1. Subrecipient financial stability;
    2. Quality of subrecipient management systems and ability to meet management standards per CFR Title 2, Chapter 2, Part 200;
    3. Subrecipient history of performance in managing prior awards, including timeliness of compliance with reporting requirements and conformance with terms and conditions;
    4. Reports and findings from audits of subrecipients;
    5. Subrecipient’s ability to implement regulatory or other requirements;
    6. Subrecipient debarments and/or suspensions.

    In the event the subrecipient is found deficient in one or more of the above categories, AGENCY will employ measures to mitigate the identified risks. Mitigating measures can include requiring additional documentation in support of invoices, increased review of project deliverables, and site visits. In extreme cases, the Continuing Cooperative Agreement may be terminated.

- The development of Overall Work Plan and corresponding Continuing Cooperative Agreements in sufficient detail to provide a clear understanding of activities, tasks, deliverables, cost and schedule for work to be done by sub-recipients.

- The review of each subrecipient invoice to ensure that the work performed and costs billed comply with the Continuing Cooperative Agreement, applicable State and Federal Regulations and direction provided as part of each year's Overall Work Program development. To facilitate this review, subrecipeints are required to submit sufficient invoice detail. Review and approvals will be documented by the Project Manager's and Executive Director's signature. The Director of Finance and Administration will initial the invoice to document the availability of funds.

- Payments will be withheld from sub-recipients for the following reasons:
    1. Insufficient detail to support the costs billed
    2. Unallowable costs
    3. Ineligible costs

- Invoices will be date stamped upon receipt if received in hard copy. A record of the date of receipt will be maintained for those invoices sent electronically.

- Periodic training of AGENCY and sub-recipient staff will be provided to ensure currency and continued compliance with this policy.

B. AGENCY PROJECT MANAGER SUBRECIPIENT OVERSIGHT RESPONSIBILITIES

1. Encourage subrecipients to submit monthly invoices;
2. Verify that invoices include progress reports;
3. Review progress reports to ensure project is progressing appropriately and on schedule;
4. Compare invoice to agreement budget to ensure eligibility of costs and that costs do not exceed budget;
5. Review invoice to ensure supporting documentation is included and invoiced costs are within the scope of work for the project(s) being invoiced;
6. Obtain report, certification and supporting documentation of local (non-federal)/in-kind match work from the subrecipient;
7. Review subrecipient match tasks for eligibility;
8. Notify AGENCY Director of Finance & Administration that invoice is approved or disapproved.

C. AGENCY SUBRECIPIENT PROJECT FILES

Subrecipient project files will contain, at a minimum, the following:

1. Project proposal (cooperative agreement tasks);
2. Project scope;
3. Risk assessment documentation;
4. Correspondence, including communications log;

5. Meeting agendas, minutes, and attachments;
6. Progress reports;
7. Interim and final products;
8. Project close out form;
9. Copies of other applicable project documents as required, such as copies of contracts or MOUs.

SECTION II: SUBRECIPIENTS RESPONSIBILITIES

A. PROJECT MANAGEMENT AND ADMINISTRATION

The subrecipients must designate a person as Subrecipient Project Manager who is primarily responsible for the execution of the grant. Subrecipients must ensure that their practices comply with the guidelines discussed in Parts B through G. In addition, subrecipients and Subrecipient Project Managers have the following responsibilities:

1. Provide AGENCY with copies of Joint Powers Agreements or other founding legal documents and any changes to legal status;

2. Report to AGENCY and provide copies of contracts when a new Executive Director is retained;

3. Keep AGENCY informed on the project progress and request prior approval of any changes when necessary;
4. Inform AGENCY of any issues that arise with the projects, at the earliest possible time, to ensure that the projects are completed on schedule and within budget;
5. Submit accurate and complete invoices. These invoices must show the costs incurred in detail. If there are staff costs, they must show the name(s) of the staff, their hourly pay rates, fringe benefit rates and costs, and overhead rate, if applicable. The invoices must also show the billing period, project (OWP) number and title, year to date budget and costs and the remaining budget for each project ;
6. Provide a report, certification and supporting documentation of local (non-federal)/in-kind match (see Part B below for additional detail);
7. Obtain approval of indirect rates through submittal of Indirect Cost Rate Proposals prior to seeking reimbursement and provide AGENCY with a copy of the approved rate from Caltrans or Federal Cognizant Agency;
8. Develop the scope of work for projects involving contractors;
9. Review the consultant's work products and providing progress reports,
10. Monitor the day-to-day activities of the consultant;
11. Recommend approval of payment of invoices from the consultant, promptly;

12. Track, monitor and report on all of their AGENCY projects, whether staff or consultant projects;
13. Provide estimates to complete projects and the estimated completion date.

B. LOCAL (NON-FEDERAL) MATCH

CFR Title 2, Part 200.306 contains the Federal regulations for matching or cost sharing. A matching or cost sharing requirement may be satisfied by: 1. Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement, including allowable costs borne by non-Federal grants; 2. the value of third party in-kind contributions applicable to the period to which the matching requirements apply.

CPG funding requires a non-Federal match, currently 11.47 percent of the total funding of a project. The match is 11.47 percent of the total sum of Federal participation plus the required non-Federal participation amount. The match is calculated work element by work element, not on the total Federal funds in the OWP.

Match requirements are contained in the Caltrans Regional Planning Handbook. As mentioned above, one of the requirements for match funds is that they are not from Federal funds. Subrecipients must be careful to ensure that non-Federal funds are used for the match provided. The MFTA also notes the matching requirements in Article 1, Section I-J. (See Appendix A, Page 3). AGENCY also agrees, in the Overall Work Program Agreement (OWPA) with Caltrans, to comply with the Federal matching requirements for CPG funds. AGENCY prescribes its requirements to subrecipients for match funds in the CCA. This part gives the requirements for In-Kind Match Reports and Cash Matches (See Appendix B, Continuing Cooperative Agreement Template).

C. THIRD PARTY CONTRACTS

When work is contracted out, all Federal and State compliance responsibilities of AGENCY apply to the consultant third party entities as they do to AGENCY and must be included in the consultant agreements. If portions of the work are further contracted out to subconsultants, the consultant must include the Federal and State compliance responsibilities in the subconsultants' agreements.

D. INVOICING

The ***Local Assistance Procedures Manual*** and MFTA sets out the requirements for AGENCY to obtain reimbursement for expenditures on Federal and State funded projects. AGENCY is required to submit invoices to Caltrans for completed work. Invoices may be submitted monthly to Caltrans. Section 5 of the ***Local Assistance Procedures Manual*** describes the invoice process and requirements, which apply to subrecipients as well as AGENCY.

Invoices may vary in format but must include the following information:
1. Invoice date;
2. Invoice number;
3. Progress reports;
4. Local (non-federal) match certification and supporting documentation;
5. Supporting documentation to support invoice reimbursement request, including but not limited to, cancelled checks, reports from accounting system, i.e., general ledger, transaction reports, etc.;
6. Spreadsheets;
7. Documentation of accounting and internal control system, so that AGENCY has a general knowledge regarding how costs are allocated and segregated;
8. Third party invoices;
9. Any additional information that will support and substantiate allowable and eligible costs.

E. PROGRESS REPORTS

The Progress Reports prepared by the subrecipient, and submitted for AGENCY's review, must include, but are not limited to, the following:

1. Information such as AGENCY Manager/Project Manager;
2. Subrecipient Project Manager responsible for the project;
3. A brief contract description (if applicable);
4. The name of the consultant (if applicable);
5. Work planned for the quarter;
6. Work accomplished in the quarter;
7. Work planned for the next quarter;
8. Issues encountered;
9. Issue resolution;
10. Any proposed amendments;
11. Final products;
12. Percentage of work complete;
13. OWP completion date and current estimated completion date, with an explanation of any variance;
14. Expenditures for the quarter and year to date and the funding split listed in the OWP.

All progress reports are due to Caltrans on the last business day of the month following the close of the quarter. AGENCY will conduct a final review upon completion of the report to ensure accuracy before submittal to Caltrans. The AGENCY Project Manager must brief the Caltrans Program Manager on the project so they can respond to any questions.

F. COMPLIANCE WITH FEDERAL REGULATIONS

Subrecipients are also required to be cognizant of, and ensure that their practices conform to, the administrative requirements referenced above in Section I when accepting Federal funds. The administrative requirements include: CFR 2, Title 2, Chapter 2, Part 200; Federal Transit Administration Circulars and the Federal Certifications and Assurances as cited in the MFTA. (Appendix A).

1. The Code of Federal Regulations, Title 2, Chapter 2, Part 200

(a)(1) This part establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities, as described in §200.101 Applicability. Federal awarding agencies must not impose additional or inconsistent requirements, except as provided in §§200.102 Exceptions and 200.210 Information contained in a Federal award, or unless specifically required by Federal statute, regulation, or Executive Order.
(2) This part provides the basis for a systematic and periodic collection and uniform submission by Federal agencies of information on all Federal financial assistance programs to the Office of Management and Budget (OMB). It also establishes Federal policies related to the delivery of this information to the public, including through the use of electronic media. It prescribes the manner in which General Services Administration (GSA), OMB, and Federal agencies that administer Federal financial assistance programs are to carry out their statutory responsibilities under the Federal Program Information Act (31 U.S.C. 6101-6106).

(b) *Administrative requirements.* Subparts B through D of this part set forth the uniform administrative requirements for grant and cooperative agreements, including the requirements for Federal awarding agency management of Federal grant programs before the Federal award has been made, and the requirements Federal awarding agencies may impose on non-Federal entities in the Federal award.

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(d) *Single Audit Requirements and Audit Follow-up.* Subpart F—Audit Requirements of this part is issued pursuant to the Single Audit Act Amendments of 1996, (31 U.S.C. 7501-7507). It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards. These provisions also provide the policies and procedures for Federal awarding agencies and pass-through entities when using the results of these audits.

(e) For OMB guidance to Federal awarding agencies on Challenges and Prizes, please see M-10-11 Guidance on the Use of Challenges and Prizes to Promote Open Government, issued March 8, 2010, or its successor.

In addition, subrecipients must comply with Federal Transit Administration (FTA) regulations, namely:

1. **FTA Circular C 4220.lF, Third Party Contracting Requirements**

   This Circular sets forth the requirements a grantee must adhere to in the solicitation, award and administration of its third party contracts;

2. **FTA Circular C 50l0.lE, Grant Management Guidelines**
   This Circular provides guidelines and management procedures for Metropolitan Planning grants, Capital Program grants and Urbanized Area Formula grants for assistance programs of the FTA after award;

3. **FTA Circular C 8l00.lC, Program Guidance and Application Instructions for Metropolitan Planning Grants**
   This Circular provides application instructions and program guidance instructions for the preparation of Metropolitan Planning Program grant applications for funds authorized by 49 U.S.C. 5303.

G. CONFLICT OF INTEREST RULES

CFR Title 2, Part 200.318(c)(1) states that no employee, officer or agent of the gran tee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

- The employee, officer or agent,
- Any member of his immediate family,
- His or her partner, or
- An organization which employs, or is about to employ, any of the above,

has a financial or other interest in the firm selected for award. The CCA also requires subrecipient to comply with the applicable provisions of AGENCY's Conflict of Interest Policy, which incorporates Federal and State conflict of interest requirements. (Appendix B). Subrecipients must comply with the provisions of the State conflict of interest laws, including California Government Code 1090-1099.

APPENDIX A: MASTER FUND TRANSFER AGREEMENT

APPENDIX B: CONTINUING COOPERATIVE AGREEMENT TEMPLATE

APPENDIX C: AGENCY GRANT APPLICATION

APPENDIX D: RISK ASSESSMENT FORM

CHARGING COSTS TO FEDERAL AWARDS

BACKGROUND

In the performance of its mission, AGENCY utilizes a number of funding sources including grants provided by the Federal Government. To utilize these funds for the reimbursement of costs, AGENCY and its subrecipients are required to follow CFR Title 2, Part 200, Subpart E - Cost Principles when accounting for expenditures.

POLICY

AGENCY charges costs that are reasonable, allowable, and allocable to an award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger to assure that unallowable costs are not charged to any awards. AGENCY subrecipients are required to follow these same practices.

PROCEDURES

Segregating Unallowable from Allowable Costs

The following steps shall be taken to identify and segregate costs that are allowable and unallowable with respect to each award:

1. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable. Accounting personnel should be knowledgeable of specific unallowable costs, such as alcoholic beverages, bad

debts, contributions, fines, lobbying, etc. and those requiring advance approval from Federal agencies, such as equipment purchases.

2. No costs shall be charged directly to any award until the cost has been determined to be allowable under the terms of the award and/or CFR Title 2, Part 200, Subpart E - Cost Principles.

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

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

Criteria for Allowability

All costs must meet the following criteria from CFR Title 2, Part 200, Subpart E - Cost Principles, to be treated as allowable direct or indirect costs under an award:

1. The cost must be "reasonable" for the performance of the award, considering the following factors:
   a. Whether the cost is of a type that is generally considered as being necessary for the operation of the agency or the performance of the award;
   b. Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, federal and state laws and regulations, and the terms and conditions of the award;
   c. Whether the individuals concerned acted with prudence in the circumstances;
   d. Consistency with established policies and procedures of the agency, deviations from which could unjustifiably increase the costs of the award.

2. The cost must be "allocable" to an award by meeting one of the following criteria:
   a. The cost is incurred specifically for an award;
   b. The cost benefits both the award and other work, and can be distributed in reasonable proportion to the benefits received; or

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

3. The cost must conform to any limitations or exclusions of CFR Title 2, Part 200, Subpart E - Cost Principles or the award itself.

4. Costs must be consistently treated over time.

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

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

7. The cost must be adequately documented.

Direct Costs

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

Each invoice shall be coded with the appropriate account reflecting which program received direct benefit from the expenditure. Invoices should be approved by the appropriate project manager and reviewed by accounting/administrative personnel and the Executive Director.

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

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

Indirect Costs

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular grant or program but are necessary to the operation of the organization. Indirect costs may be allocated to benefiting grants through the use of an indirect cost rate.

Indirect Cost Rate

AGENCY develops an annual indirect cost allocation plan/indirect cost rate proposal in accordance with CFR 2, Title 2, Chapter 2, Part 200 and procedures promulgated by Caltrans Division of Audits & Investigations. AGENCY submits the indirect cost allocation plan/indirect cost rate proposal to Caltrans Division of Audits & Investigations for review and approval. In order to invoice for indirect costs, subrecipients must also have an indirect cost allocation plan/indirect cost rate approved by Caltrans Audits & Investigations or the appropriate Federal Cognizant Agency.

Examples of the types of expenditures normally included in the indirect cost pool are:
1. General administration
2. Salaries and benefits of the executive officers, fiscal, human resources and administrative personnel
3. Depreciation of equipment and buildings
4. Office rent and maintenance
5. General office repairs and maintenance

The following costs are unallowable as part of the indirect cost rate:

- Interest
- Equipment of $5,000 and greater except with prior approval
- Building improvements
- Building renovations

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

Accounting for Specific Elements of Cost

Specific elements of costs are typically charged to Federal awards as direct or indirect costs as follows:

Salaries and Wages – Salaries and wages shall be charged directly and indirectly based on the functions performed by each employee, as documented on each employee's timesheet. Project time should be charged direct and administrative time should be charged indirect.

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

Employee Benefits – Eligible benefits typically include the following:

- FICA
- Unemployment insurance
- Worker's compensation
- Health insurance
- Contributions to pension plan
- Accrued vacation fringe

Benefit costs should be charged directly and indirectly in the same proportion as each individual's salaries and wages.

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

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

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

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

Photocopying and Printing – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost or depreciation expense of the copier. Photocopying costs shall be charged directly and indirectly based on the activity.

All printing costs are charged directly to the benefiting grant or program/function when possible.

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

Outside Services – Outside services include the costs for audits, legal fees, etc. Outside service costs shall be charged as follows:

Audit fees – Cost of the financial statement audit and preparation of applicable reports shall be charged as an indirect cost.

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

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

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

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

ACCOUNTING FOR LOCAL MATCH

BACKGROUND

In the performance of its mission, AGENCY utilizes several funding sources including grants provided both by the State of California and by the Federal Government. Many of these fund sources require AGENCY to provide a "match" in funding from local sources either as a cash match or from In-Kind services.

POLICY

AGENCY is required to establish local match documentation procedures. This policy applies to all:

1. Programs that establish matching by AGENCY or by partner entities (Sub-Recipients) receiving funds by contract with AGENCY.

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

PROCEDURES

Local Match Authorization and Approval Process

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

1. Program managers must:

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

   b. Review and, as appropriate, approve the local entity's annual plan and budget.

      Note: Program managers are responsible for knowing the specific federal matching regulations related to the federal funding source.

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

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

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

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

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

2. AGENCY programs must require Sub-Recipients to complete and submit a local match certification form **prior** to submitting RFR's for reimbursement.

Third Party In-Kind Contributions

A. All in-kind contributions and valuation methods must be documented.

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

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

1. Volunteer services provided by individuals. These are based on fair market value of the service provided. The value is not based on the potential or actual earning ability of the volunteer who performed the service.

   For example, if an attorney assists with landscaping, the value of the attorney's in-kind time cannot be based on the attorney's hourly billing rate.

2. Services provided by employees of another organization. These are the actual costs incurred by the employing organization for salary and benefits. The value cannot include organizational overhead.

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

4. Donated equipment. If the title to the asset does transfer, then FMV needs to be determined. However, authorization must be obtained from the awarding agency if the entire FMV can be used as an in-kind contribution or if only the standard Use Allowance may be used.

   If the title of the asset does not transfer, then the FMV of renting/leasing such asset may be used as an in-kind contribution.

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

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

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

A. Accounting for Local Match by Cash Receipt

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

B. Accounting for Local Match by Certification (On AGENCY Records)

1. The Program Manager verifies that the local entity has the required match to support their Request for Reimbursement (RFR).
2. AGENCY is the cognizant agency for the federal grant and reports the total expenditure on its federal claim (RFR).