

Best Practices in Cost Allocation

Webinar in partnership with MTAP and RLS

August 4, 2022

National RTAP
Rural Transit Assistance Program

FTA U.S. Department of Transportation
Federal Transit Administration

Agenda

- Welcome/Introduction Robin Phillips
- 2:30 PM National RTAP Overview Robin Phillips
- 2:35 PM AASHTO Overview Richard Price
- 2:40 PM Cost Allocation Overview Rich Garrity
- 3:20 PM PennDOT Experience John Taylor & Sheila Gombita
- 3:35 PM Vermont Agency of Transportation Experience Tim Bradshaw
- 3:50 PM Questions All
- 4:00 PM Adjourn Robin/Richard

What is National RTAP?

- Section 5311 Formula Grants for Rural Areas- funded FTA to provide Technical Assistance Center for:
  - Rural and Tribal Transit Organizations
  - State RTAP Programs


National RTAP
Rural Transit Assistance Program

Resource Catalog

888-589-6821
nationalrtap.org
info@nationalrtap.org

Most National RTAP training modules and all technical briefs are available in PDF format. Many resources are also available in multiple formats – P: Print D: Disc E: eLearning. If viewing this catalog as a PDF, use the mouse to hover over any **bold** resource titles (or the words Instructor, Facilitator, Learner, Resource Guide, or Spanish) and use Ctrl + Click to access the link to that resource. Training modules in print and disc formats are available for shipment, free of charge, from our online Resource Library or by phone, email or chat. For eLearning, visit **nationalrtap.org/Training/National-RTAP-eLearning**.

To view the National RTAP resources that are most useful for each transit role, go to page 7 of this catalog.

Recently Launched or Updated:

- **Tools that Connect: Online Trip Planners and GTFS Builder**, January 2020
- **Head Start Program Transportation in Rural Areas**, January 2020
- **Time Management for Rural Transit Managers**, January 2020

Training Module	Description	Date
2 the Point Training • English • Spanish • eLearning	Quick refresher training cards for drivers on topics including defensive and distracted driving, drugs and alcohol, customer service, safety and the Americans with Disabilities Act. Spanish version available. P E	2019
Boards That Perform	Addresses the roles, issues and responsibilities involved in being a transit board member P D	2008
Customer Driven Service • Learner • Instructor	Trains transit staff to provide excellent customer service in a variety of situations and understand steps they need to take to avoid customer service breakdowns and maintain positive morale. P D	2011
Emergency Procedures for Rural Transit Drivers • Learner • Instructor	Provides tools to prepare for and resolve on-the-road emergencies for drivers, such as accidents, natural disasters and hazardous materials. P D E	2011
Essential Skills for Trainers • Resource Guide • Instructor	Instructs trainers on how to lead effective sessions and incorporate activities, materials, including warm-ups, role-play and brainstorming. P	2009
Fundamental Financial Management Training	Covers basic financial accounting, such as revenue and cash management, budgeting, audits and cost allocation. P D	2006
How to Buy a Vehicle: A Primer for Rural, Tribal and Small Urban Transit	Provides information to help simplify the vehicle procurement process, with an accompanying MAP-21 Updates 2013 document. P	2019



- We provide **free** training and technical assistance resources:
  - Training books, and online courses via our eLearning Portal. Webinar, Virtual Workshops, as well as in-person, remote, and hybrid conferences.
  - Free Web Apps and Tools to manage websites, GTFS data, and to assist with procurement and financial management.
  - Peer technical assistance network, forums, and roundtables.
  - Comprehensive Resource Center Library with updated products.

WEBSITE BUILDER

PROCUREMENT PRO

GTFS BUILDER

COST ALLOCATION CALCULATOR

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National RTAP
Rural Transit Assistance Program

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Federal Transit Administration

About the AASHTO Council on Public Transportation and the Multi-State Transit Technical Assistance Program



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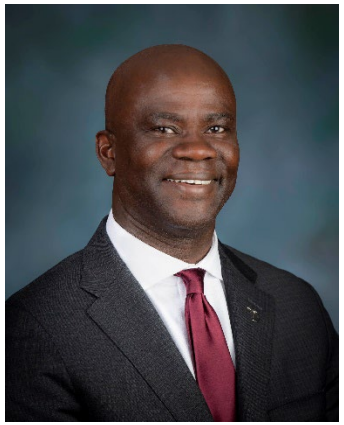
COUNCIL ON PUBLIC TRANSPORTATION

MTAP

The Council on Public Transportation

PTC.transportation.org

COUNCIL ON PUBLIC TRANSPORTATION



Chair
Vice Chair
Paul Ajegba
……
Director
……
Michigan DOT
…….



What We Do – Our Five Goals

1. Lead and influence national policy related to public transportation
2. Advance public transportation as part of an integrated transportation system
3. Strengthen Council's leadership role within AASHTO and among other national organizations, institutions, and groups with complementary purposes and goals
4. Identify and promote research and develop educational resources to support public transportation providers
5. Work with FTA, public transportation partners and states to promote safety and other vital issues, in support of their delivery of public transportation programs

The Multi-State Transit Technical Assistance Program (MTAP)

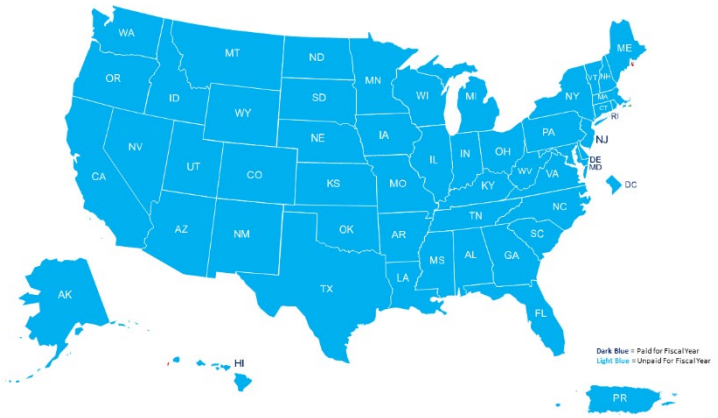
MTAP.transportation.org



MTAP Chair
Don Chartock
Washington State DOT

MTAP Vice Chair
Katelyn McClanahan
Tennessee DOT





46-48 State DOT Members Join Annually

What We Do

- ❑ Three in-person **meetings** annually
- ❑ 8-10 online **educational forums and exchanges**
- ❑ Reports and communications, including the **biweekly e-News and biannual newsletters.**
- ❑ Regulatory and legislative matters regarding state transit programs.
- ❑ Transit research projects thru NCHRP

Moving Public Transportation
Into the Future

Best Practices in Cost Allocation: A Guide for State DOTs and Subrecipients

August 4, 2022

Presented by:

Rich Garrity

RLS & Associates, Inc.

Session Content



1 Defining Cost Allocation Issues



2 Key Concepts in Direct/Indirect Costs



3 Indirect Costs Rate Proposals (ICRPs)



4 Best Practices

Section 1

DEFINING A STANDARDIZED APPROACH TO COST ALLOCATION ISSUES

Types of Cost Allocation

- **Financial Based Cost Allocation**
- **Service Based Cost Allocation Plans**

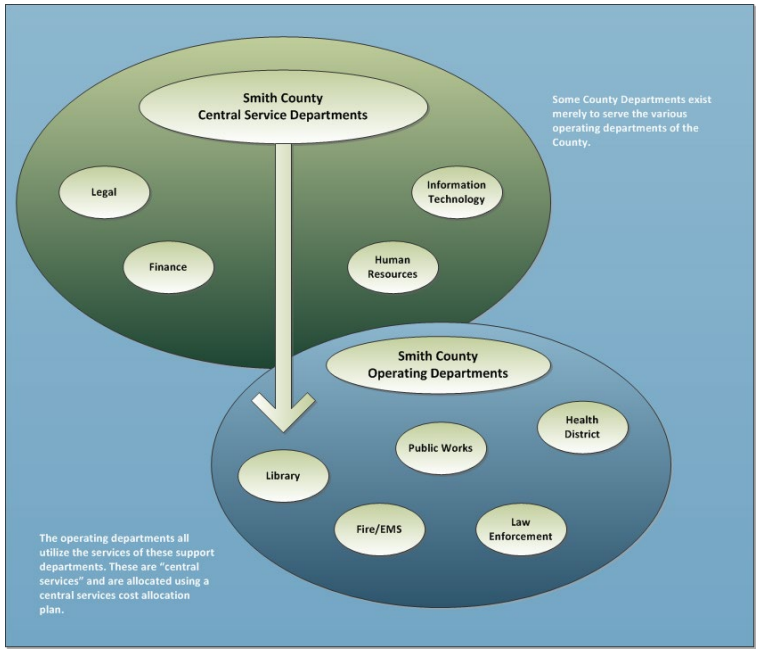


Financial Based Cost Allocation

- **Two Types**
  - **Central Service Cost Allocation Plans**
  - **Indirect Cost Allocation Plans**

Financial Based Cost Allocation #1

- **Central Services Cost Allocation Plan**
  - **A Publicly Sponsored Transit Program Benefits from the Services of Other Governmental Units and Desires to Claim Costs Incurred by these Units Under its Various Federal Awards**



Financial Based Cost Allocation #1

- Central Services Cost Allocation Plan
  - The Public Entity or Governmental Unit Must Prepare a “Central Services Cost Allocation Plan”
- Many Small Governments Do Not Have Such Plans
- Results from a Central Services Cost Allocation Plan Flow Into the Organization’s Indirect Cost Allocation Plan

Financial Based Cost Allocation #2

- **Indirect Cost Allocation Plan**
  - **An Entity (Public or Private Nonprofit) Provides Multiple Program Services**
  - **Certain Overhead and Administrative Costs Incurred by the Entity Benefit All Programs and Services, Including Transit**

Financial Based Cost Allocation #2

- **Indirect Cost Allocation Plan**
  - **The Agency Seeks to Recoup These Costs in Their Billings to Various Federal Agencies**
  - **The Entity Requires an Approved "Indirect Cost Allocation Rate" in Order for Such Costs to be Reimbursable by the Federal Government**

Service Based Cost Allocation

- Allocate Costs to Various Types/Modes/ Services
  - NTD Requires Such Allocations
- Price Service Provided Under Contract
- Urban/Rural Cost Allocation
  - Required by FTA

Service Based Cost Allocation

- **Allocate Costs to Different Modes**
  - **A Public Transit Agency Operates a Fixed Service**
  - **Under the ADA Rule, the Entity Must Also Operate Complementary Paratransit**
  - **NTD Generally Requires Expenses be Split by Mode of Service**
    - **MB = Motor Bus**
    - **DR = Demand Response**

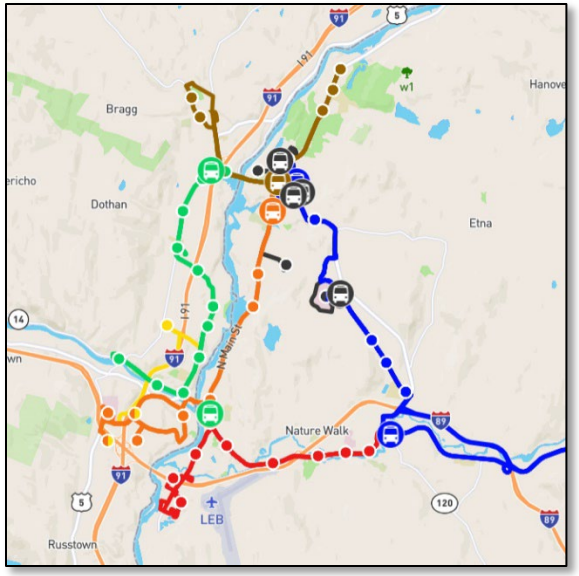


Service Based Cost Allocation

- **Allocate Costs to Different Modes**
  - **The Transit Agency May Also Seek to Answer the Question, What is the Cost of Route 1 vs. Route 2?**
  - **How do We Allocate the Salary of the General Manager to These Two Routes?**
    - **Service-Based Cost Allocation Methods**

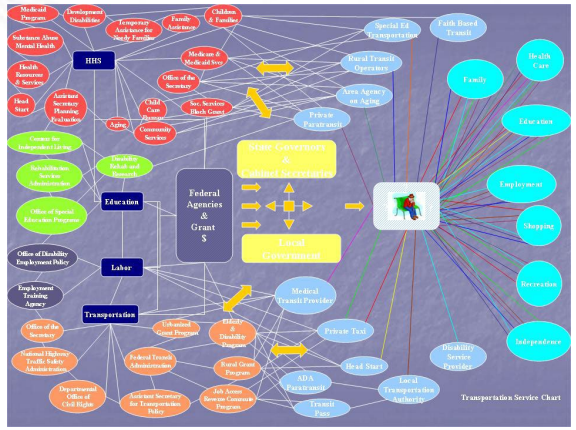
Service Based Cost Allocation

- **Pricing Service by Route**
  - **Original PriceWaterhouse Service Based Cost Allocation Method Designed to Price Service by Route**
  - **Best Practices Dictate Evaluation of Fixed Route Service on Route-by-Route Analysis**



Service Based Cost Allocation

- **Price Service Provided Under Contract**
  - **A Public Transit Agency Coordinates Service With Various Human Service Agencies In The Area**
  - **The Transit Agency Needs A "Fully Allocated Cost Analysis" To Determine How To Price Contract Services**

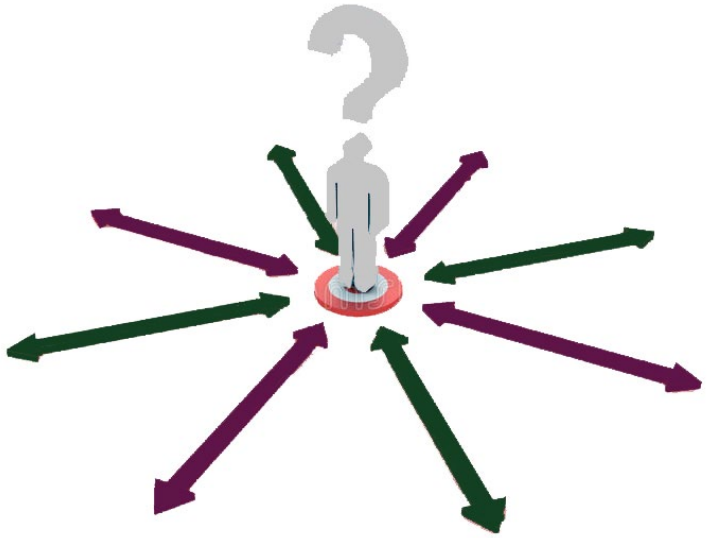


Service Based Cost Allocation

- **Urban/Rural Cost Allocation**
  - **A Transit Agency Receives Funding Under Both FTA Section 5307 And Section 5111**
  - **FTA Expects the Grantee to Develop a Reasonable Basis for Allocating Operating Costs Between the Two Funding Sources that is Related to the Service Provided**
  - **FTA Requires a "Cost Allocation Plan" to Distribute Costs to the Two Different, But Related Programs**

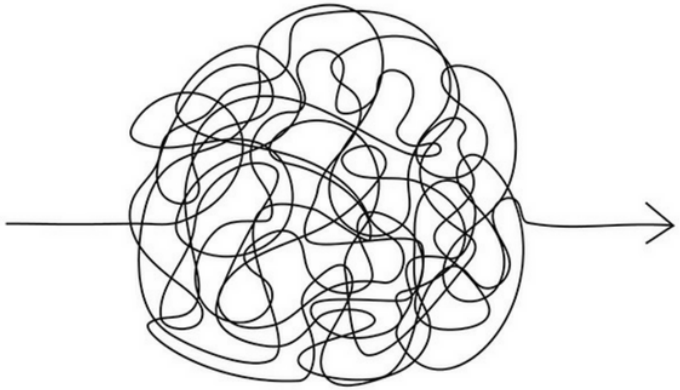
Multiple Allocation Plans

- **For Some Entities that Seek to Fully Identify the Cost of Transit Service, Multiple Cost Allocation Strategies May be Necessary**



Multiple Allocation Plans

- **Is it Complicated?**
  - **Yes, It Can Be**
  - **Then Why Do It?**
  - **Is It Important to Ensure Management's Assessment of Finances Includes <u>All</u> Costs?**



Section 2

KEY CONCEPTS TO UNDERSTAND DIRECT AND INDIRECT COSTS

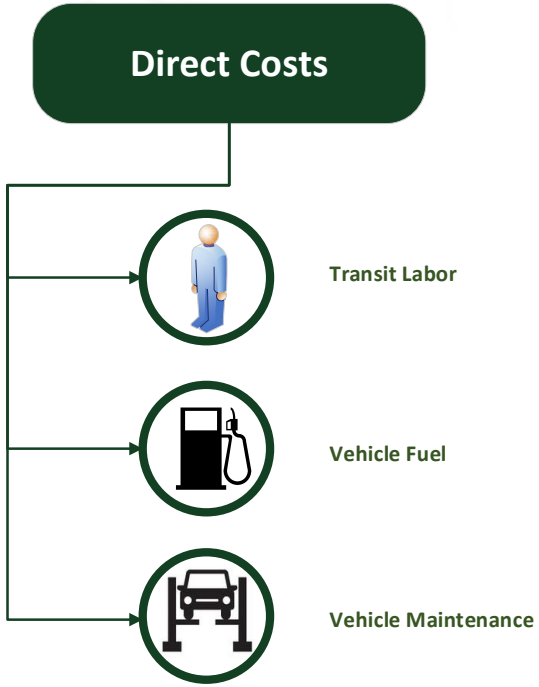
Principle

- **There Is No Universal Rule For Classifying Certain Costs as Either Direct or Indirect (F&A) Under Every Accounting System**



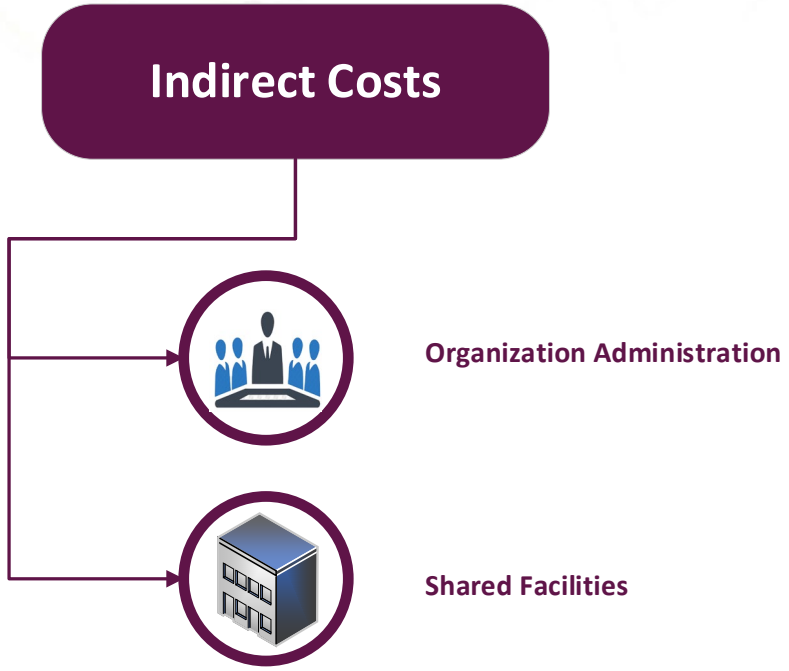
Direct Costs

- **Those Expenses Incurred by the Recipient of Subrecipient That Are Directly Related and Strictly Benefit Only the Public Transportation Program**



Indirect Costs (F&A)

- **Indirect Costs Are Those That Have Been Incurred For Common or Joint Purposes**



Allowability of Indirect Costs

- **Allowable, to the Extent the Charges Conform to an Approved Indirect Cost Rate**
  - **Indirect Costs Are Normally Charged to Federal Awards By the Use of An Indirect Cost Rate**
  - **A Separate Indirect Cost Rate(s) Is Usually Necessary For Each Department or Agency of the Governmental Unit Claiming Indirect Costs Under Federal Awards**

Section 3

INDIRECT COST RATE PROPOSALS (ICRP)

Indirect Cost Rate

- **An Indirect Cost Rate Is a Device For Determining In a Reasonable Manner the Proportion of Indirect Costs Each Program Should Bear**
  - **Usually Expressed as a Ratio of Indirect Costs To a Direct Cost Base**
  - **Documented in an Indirect Cost Rate Proposal (ICRP)**

Indirect Cost Rate Proposal

- **Definition**
  - **The Documentation Prepared By a Governmental Unit, Subdivision Thereof, or Nonprofit Organization To Substantiate Its Request for the Establishment of an Indirect Cost Rate**



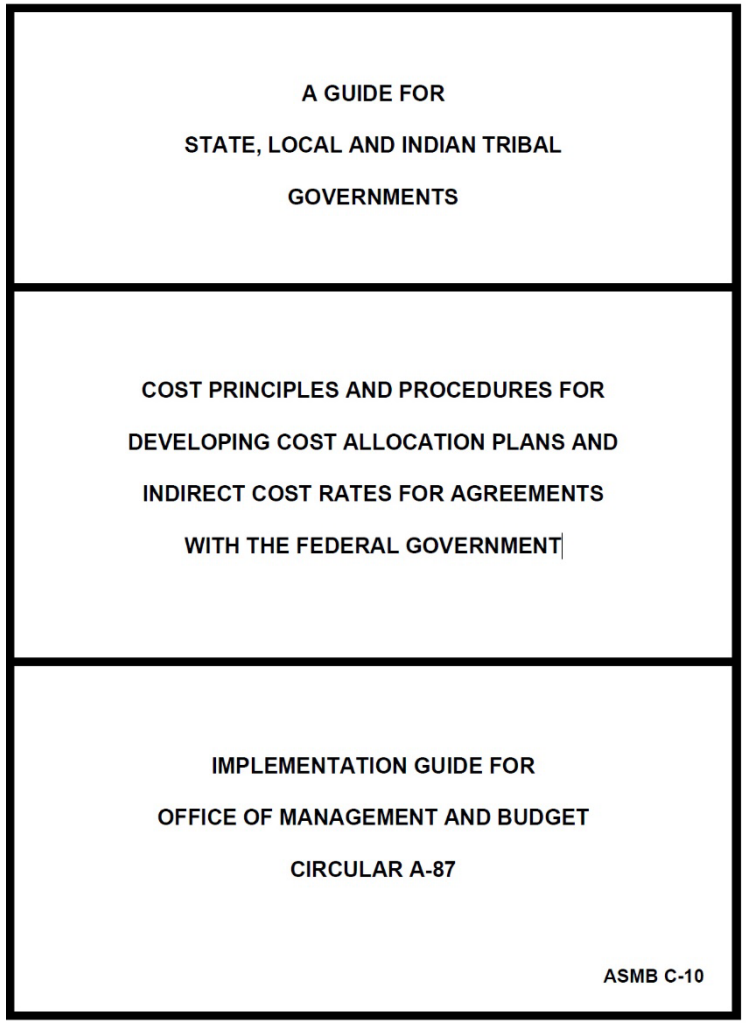
Indirect Cost Rate Proposal

- **Guidance**
  - **Primary Guidance**
    - **State and Local Governments**
      - **2 CFR § 200, Appendix VII, "States and Local Government and Indian Tribe Indirect Cost Proposals"**
    - **Nonprofits**
      - **2 CFR § 200, Appendix IV, "Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations"**

Indirect Cost Rate Proposal

- **Guidance**
  - **There is Also Reference to Another Document, Out-of-Date as the Government Authors Did Not Keep Pace with OMB Changes**
  - **BUT**
    - **A Document Known as ASMB C-10 May Be the Best Guidance for Preparing an Indirect Cost Rate Proposal**
      - ***Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements With the Federal Government***

Indirect Cost Rate Proposal



Submission

- **Submission Should be Made to the Cognizant Agency for Indirect Costs**
  - **This is the Entity Responsible for the Following in Indirect Cost Rate Proposals:**
    - **Review**
    - **Negotiation**
    - **Approval**

Cognizant Agency for Indirect Costs

- **Public Entities That Receive More Than $35,000,000 Must Submit Its Indirect Cost Rate Proposal to the Cognizant Agency for Indirect Costs**
  - **OMB Designates Cognizant Agency**
- **Other Public Entities Develop Indirect Cost Rate Proposals, Use the Rates, and Maintain All Proposal Documentation On File**
  - **Submit Upon Request**
  - **Generally, Federal Agency Awarding the Most Funds Serves as Cognizant Agency**

Cognizant Agency for Indirect Costs

- **KEY Element For Pass-Through Entity and Subrecipients**
  - **Where a Non-Federal Entity Only Receives Funds As a Subrecipient, the Pass-Through Entity Will Be Responsible For Negotiating and/or Monitoring the Subrecipient's Indirect Costs**
    - **State DOT = Pass-Through Entity**
    - **Section 5311 Grantee = Subrecipient**

Practical Issues

- **Practical Issues Confronting Non-Federal Entities**
  - **Transit May Be One of the Only Department, Program, or Activity of the Local Governmental Unit Able to Seek Reimbursement of Indirect Costs**
    - **Local Government Management May Not Embrace the Costs/Benefits of Preparing an Indirect Cost Rate Proposal**
  - **Grant Funds Are Capped**
    - **Entity Can Draw Down All Allocated Funds With Direct Costs**
    - **What is the Point?**

Simplified Method

- **Several Methods, But One is Particularly Suited to Smaller Entities**
  - **Simplified Method**
    - **Major Functions Benefit from the Provision of Indirect Costs to the Same Degree**
    - **Classify Costs to Use as a Base**
    - **Divide Total Indirect Costs by that Base**
    - **Produces a Rate, Generally a Percent**

Simplified Method

- **Indirect Cost Rates are Not Complicated, Nothing More Than Simple Division**
- **Indirect Costs Divided by a Direct Cost Base**
- **For Example:**

$$ICR = \frac{a}{b}$$

[Indirect Costs (Total or S & W Indirect)]

[Direct Cost Base (Total, MTDC, or S & W)]

Simplified Method

- **What is the Cost Base?**
  - **Total Direct Costs**
    - **Exclude Capital Expenditures and Other "Distorting" Items**
      - **Example of Distorting Items: Pass-Through Funds**
  - **Total Direct Salaries and Wages**
  - **Other Base that Results in an Equitable Distribution of Indirect Costs**

Direct Allocation Method

- Designed to Provide an Easier Method to Claim Indirect Costs
- Appropriate When the Nonprofit Agency Treats All Costs as Direct, Leaving Only Some Administrative and General Expenses to be Allocated

Direct Allocation Method

- **Direct Allocation Method**
  - **Only Listed as a Method for Nonprofit Agencies in 2 CFR § 200**
  - **Generally, a Method Used by Small Nonprofits With Relatively Few Indirect Costs**
  - **In this Method:**
    - **The Indirect Cost is "Converted" to a Direct Cost by Applying Some Basis of Allocation to the Total Cost**
      - **Number of Handsets to Allocate Indirect Telephone Costs**
      - **Number of Transactions to Allocate Indirect Finance Costs**
      - **Number of Workstations to Allocation Indirect IT Costs**

Direct Allocation Methods

- **Direct Allocation Method**
  - **Example**
    - **A Small Nonprofit Rents Office Space at $3,000/Month, Shared Among Three Program Services**
    - **The Agency "Converts" the Indirect Expense to a Direct Expense by Allocating Rent on the Basis of Square Footage (SF) Consumed by Each Program (Program 1: 0.1931 x $3,000 = $417.30)**

Program	SF	Percent
Program #1	510	19.31%
Program #2	1,540	53.10%
Program #3	510	27.41%
Total	**2,510**	**100.00%**

Direct Allocation Method

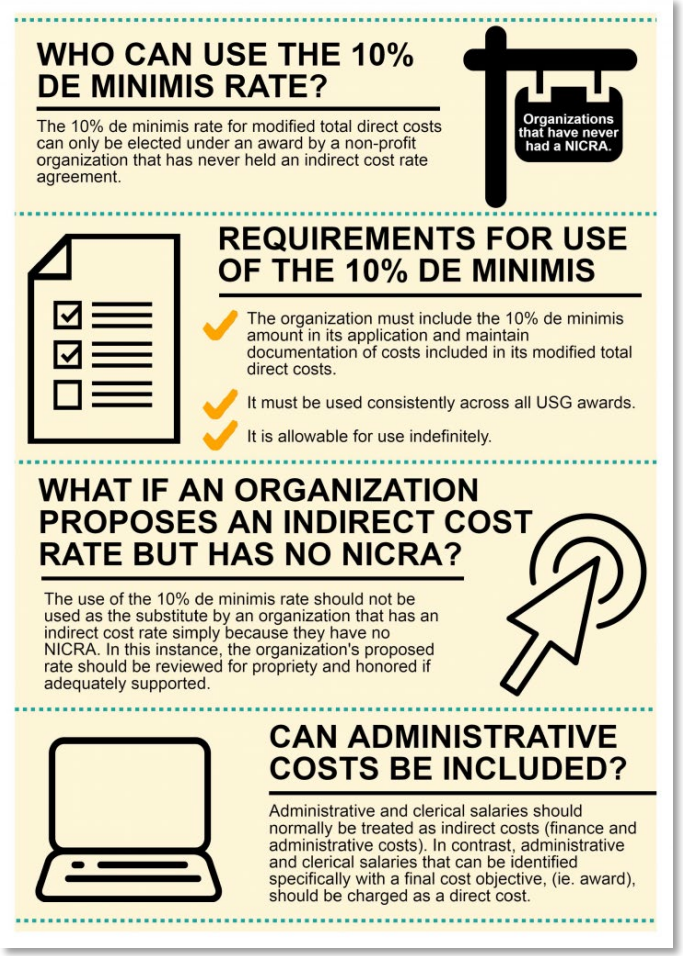
- **Issues**
  - **Seemingly Simple, BUT**
  - **Most Accounting Software Cannot Perform These Computations**
    - **Most Entities Export Data to Excel**
    - **Most Entities Recompute the Allocation Factors Each Billing Period**
    - **Experience has Shown that Entities Develop Needlessly Complex and Diverse Allocation Factors**

Direct Allocation Method

- **Issues**
  - **Virtually Impossible for a Federal Award Agency or Pass-Through Agency to Monitor**
    - **The Entity is Using Data to Perform the Direct Allocations that are Not Readily Available to the Awarding Agency**
  - **Excel Mistakes Occur**
  - **Agencies Typically Do Not Audit These Supplemental Worksheets that are Outside of Normal Accounting Records**

ICR Rates

- The *de minimis* Rate
  - New as of 12/26/2014
  - No ICRP Required
  - Any Non-Federal Entity (Either Public or Nonprofit) May Utilize the *de minimis* Rate



Using the *de minimis* Rate

- **Initially, Not Available to All Non-Federal Entities**
  - ~~**If, at any Time the NFE Had a Prior Rate with the Federal Government, the NFE is Prohibited from Using the *de minimis* Rate**~~
  - **Effective November 12, 2020, this Previous Provision is No Longer Applicable**

Section 4

BEST PRACTICES

Agency Practices

- **Critically Evaluate, Through Preliminary Computations, the Projected Indirect Cost Rate**
  - **If Remotely Close to 10% - Consider Use of *de minimis* Rate**

Agency Practices

- **Study the Applicable Appendix to 2 CFR § 200 and Understand Federal Requirements**
- **If Lacking In-House Expertise, Retain Third-Party Assistance**
- **If Not Using the *de minimis* Rate, Understand that the Entity's Indirect Cost Rate Must be Updated Annually**

Agency Practices

- **If the Entity's Allocation or Apportionment of Federal Funds from the State DOT is Less Than the Sum of All Direct Costs…**
  - **Only Claim Direct Costs Under Your Federal Awards**
  - **Only Use Indirect Cost Allocation for Full Cost Accounting Practices**
- **For Service-Based Allocation, Use RTAP's Cost Allocation Calculator**

State DOT Practices

- **Conduct Cost Allocation Training**
  - **Ensure Subrecipients Understand the Differences between Financial and Service-Based Allocation**
- **Adopt Standardized Forms and Templates for Use by Subrecipients**
- **Develop In-House Technical Capacity to Review ICRP**
  - **Rely on Expertise Outside the Public Transit Unit if Necessary**

State DOT Practices

- Conduct Cost Allocation Training
- Adopt Standardized Forms and Templates for Use by Subrecipients
- Develop In-House Technical Capacity to Review ICRP
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State DOT Practices

- While Not Required Under 2 CFR § 200, Recognize that the State DOT May Not be the State Agency Providing the Subrecipient the Most Federal Monies
- 2 CFR § 200 Alludes to a Practice Where State Agencies May Accept Rates Approved by Another State Agency

All

- All Existing Service-Based Cost Allocation Techniques Based on Estimating Fully Allocation Cost of a Service
- Industry Trends Suggest We Need Costing Tools to Compute the Fully Allocated Costs of Individual Trips
  - Least Distance Passenger-Miles

Presenter

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COORDINATION AND COST ALLOCATION IN PENNSYLVANIA

JOHN TAYLOR, PENNDOT
SHEILA GOMBITA, FREEDOM TRANSIT
AUGUST 4, 2022

pennsylvania
DEPARTMENT OF TRANSPORTATION

PENNDOT BY THE NUMBERS



*Total miles on all PA roadways

SHARED RIDE HISTORY

1980
- Shared Ride for Seniors Program

1984
- Community Transportation Capital Equipment Program

2001
- Persons with Disabilities Program Pilot

2014
- Persons with Disabilities Program fully implemented (66 of 67 counties)

SHARED RIDE OVERVIEW

- Characteristics of shared ride service
  - Non-fixed route service
  - Open to the public
  - Charges a fare to all riders
  - Each county has a designated coordinator of service
- Fare Structure
  - Each provider locally determines their fares
  - Most fares are distance based
  - Fares should ideally cover the fully allocated cost of the service
  - Various state programs will purchase service based on the fare
  - Most providers need to supplement fare revenue with other funding

COORDINATED FARE STRUCTURE

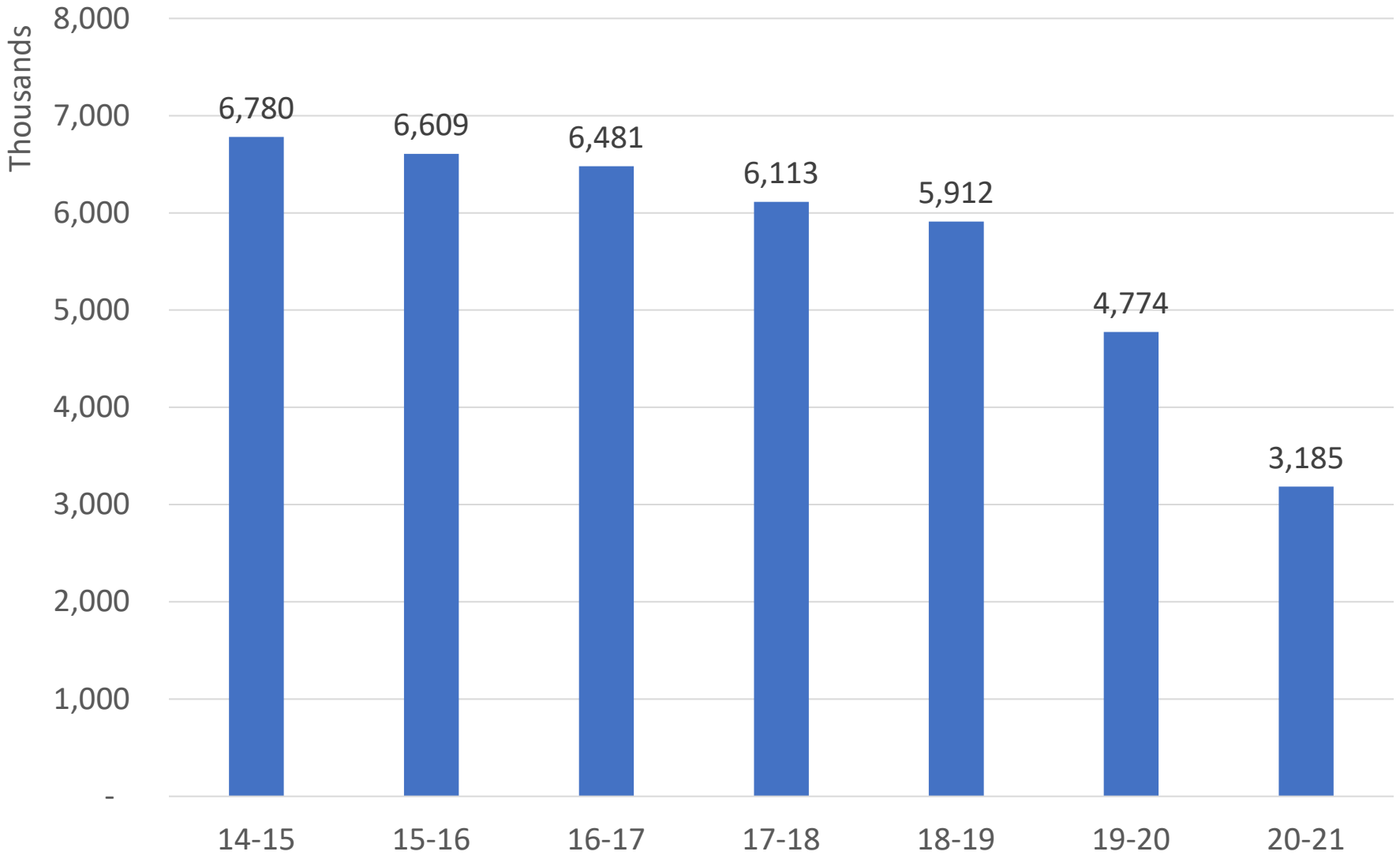
- Factors for developing structure
  - Determine Expenses
  - Evaluate trip volume by program and fare category
  - Determine trip revenue by program and fare category
  - Identify projected gap in funding
  - Test scenarios for increases to rates
    - Evaluate impact to:
      - Riders
      - Trip Sponsors / Funding Sources
  - Establish rate to meet or exceed expenses (or to just be in a better financial position)

COORDINATED FARE STRUCTURE

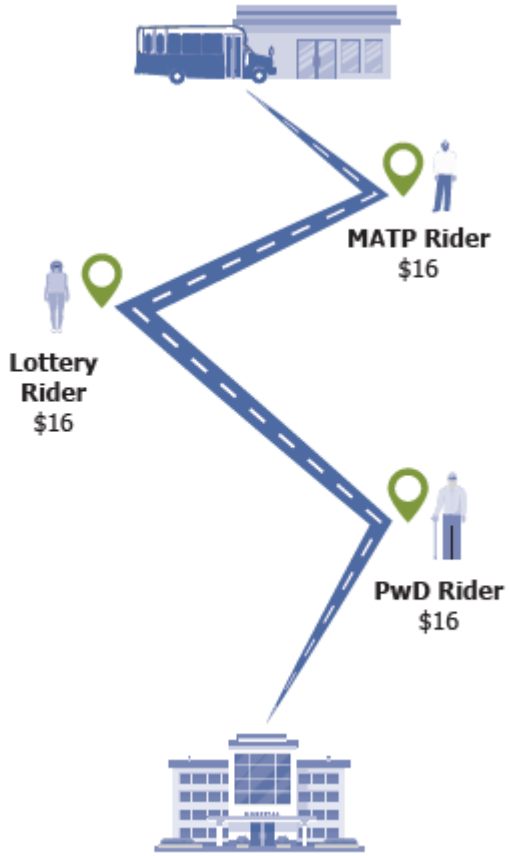
FREEDOM TRANSIT
WASHINGTON COUNTY TRANSPORTATION AUTHORITY

Fare Category in Miles	General Public & Full Fare Rate	Senior 15% copay non-medical	Senior 7.5% copay medical	PwD copay
0-1.99	$ 11.50	$ 1.75	$ 0.90	$ 2.55
2-3.99	$ 18.50	$ 2.80	$ 1.40	$ 2.80
4-6.99	$ 25.50	$ 3.85	$ 1.95	$ 3.85
7-11.99	$ 31.50	$ 4.75	$ 2.40	$ 4.75
12-19.99	$ 38.50	$ 5.80	$ 2.90	$ 5.80
20-24.99	$ 45.50	$ 6.85	$ 3.45	$ 6.85
25+	$ 51.50	$ 9.00	$ 4.50	$ 9.00

SHARED RIDE TRIPS



COORDINATED FARE STRUCTURE



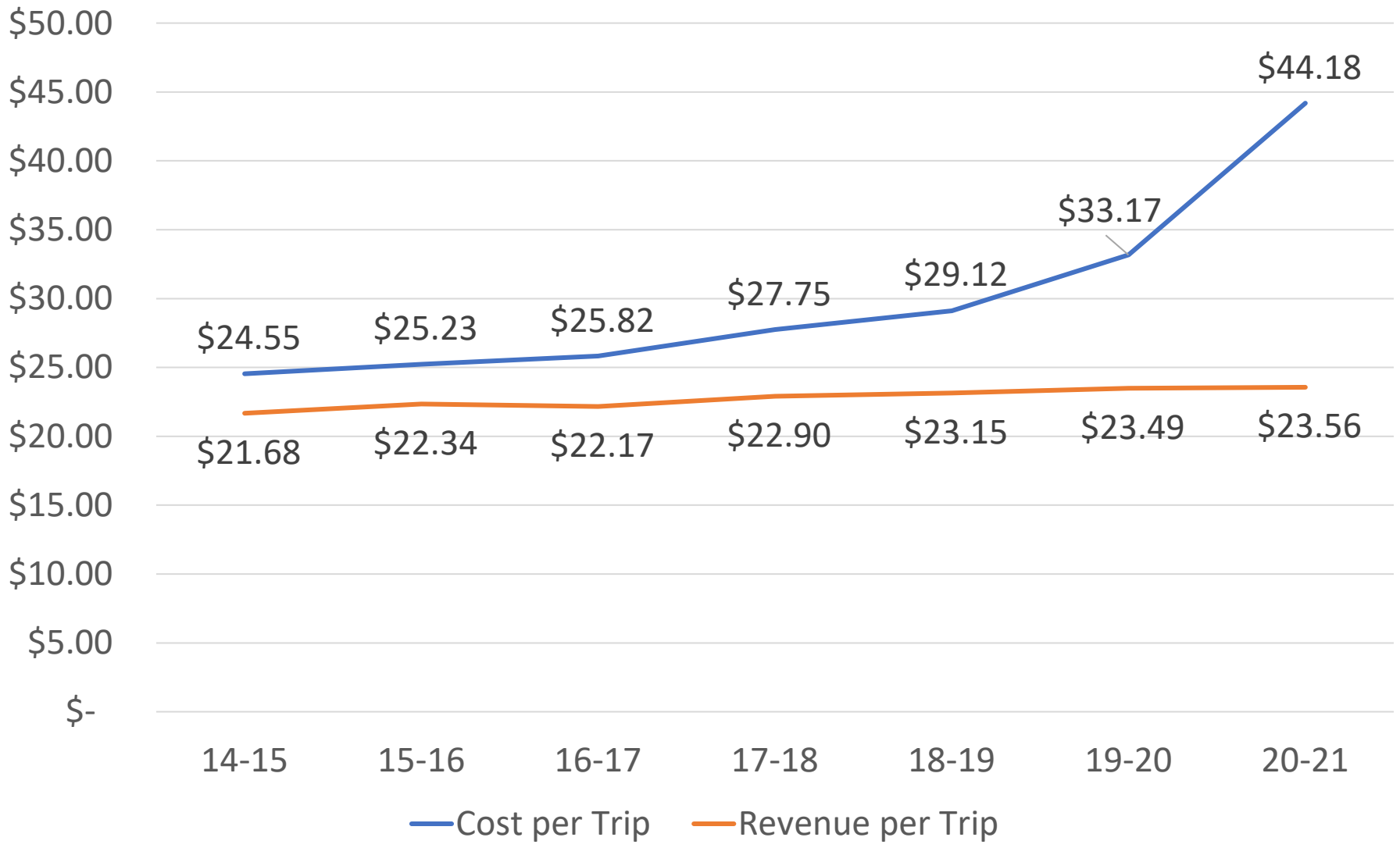
Cost of Service = $48/Hour

Revenue

Existing Fare Structure	Fare Increase*
$16	$0
$16	$24
$16	$24
$48	$48

**Scenario of removing one trip results in a 50% cost increase.*

SR COST AND REV/TRIP

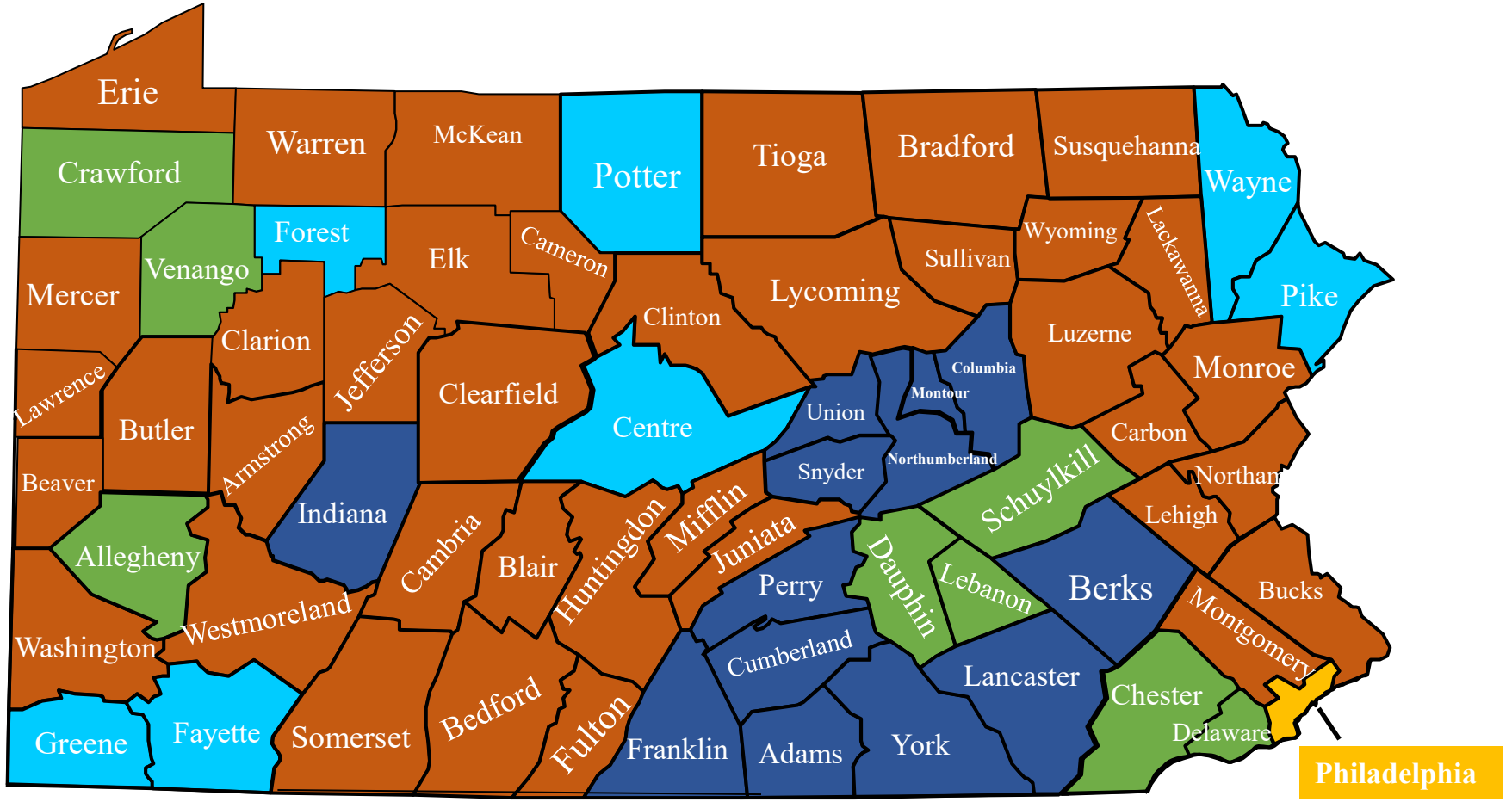


NEMT IN PA

- Providers
  - County Government
  - Sub-Contracted Entities of County Government
  - Transportation Brokerage Agency
  - Local Transit Agencies

- Modes
  - Mass transit (buses, trains, subways etc..)
  - Mileage Reimbursement
  - Paratransit (includes multi-modal and taxi)
  - Volunteers

MATP COUNTY MODELS



Direct Contract

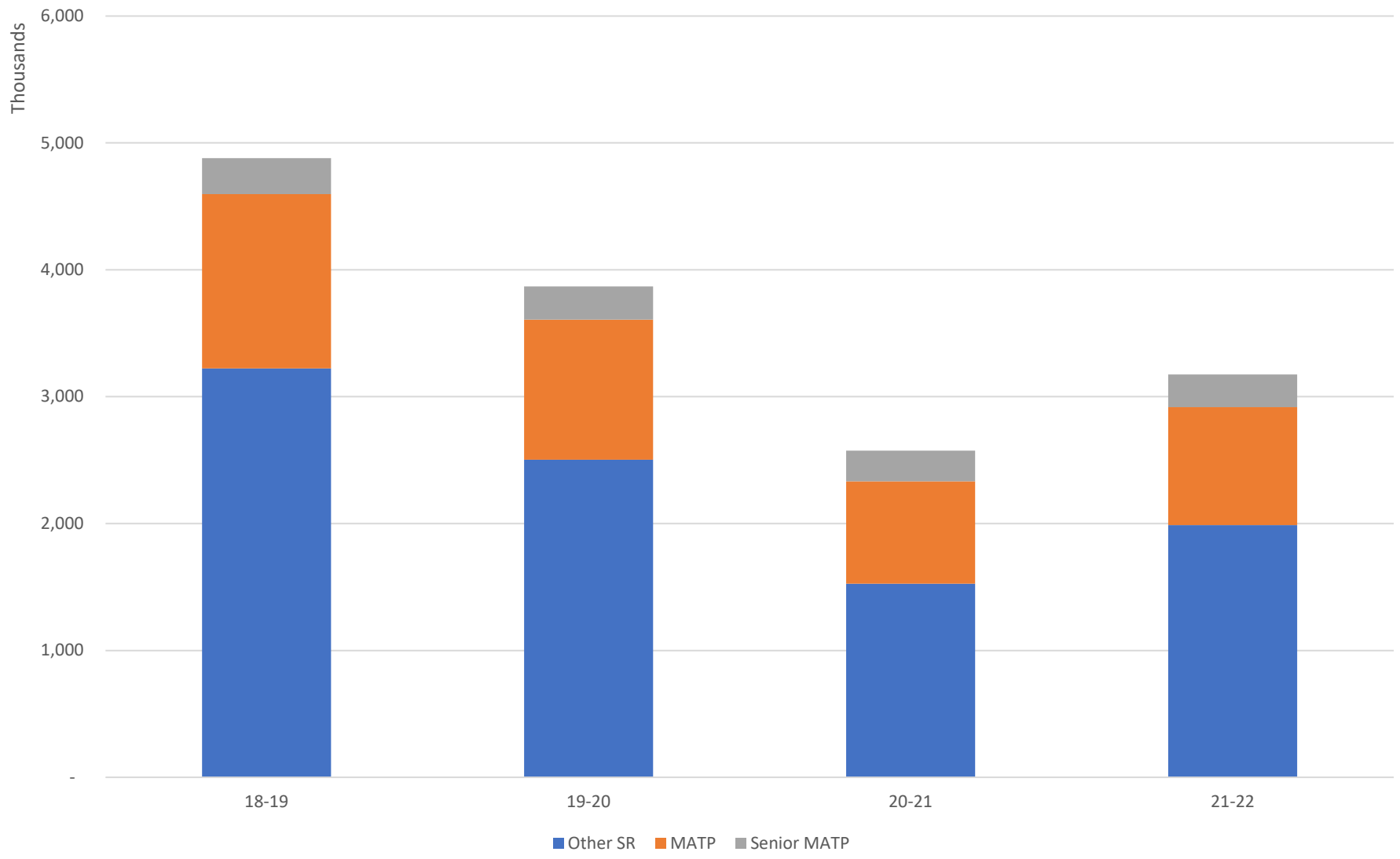
Hybrid

Broker

Service Provider

Vendor

MATP ON SHARED RIDE



SHARED RIDE TRIPS

- Washington County Data

	FY 18-19		FY 19-20		FY 20-21		FY 21-22	
Program	**Trips**	**% of total**	**Trips**	**% of total**	**Trips**	**% of total**	**Trips**	**% of total**
Seniors	85,792	42.1%	72,114	42.7%	44,701	37.4%	51,008	36.3%
NEMT/MATP	75,463	37.1%	61,418	36.4%	50,209	42.0%	59,075	42.1%
ADA	13,066	6.4%	10,968	6.5%	8,550	7.1%	9,879	7.0%
PwD	19,568	9.6%	16,427	9.7%	11,785	9.8%	14,813	10.5%
Misc. Agencies	9,426	4.6%	7,462	4.4%	3,952	3.3%	5,028	3.6%
General Public	343	0.2%	299	0.2%	458	0.4%	609	0.4%
Total	203,658		168,688		119,655		140,412	

RECENT MATP HISTORY

- July 2018 (Act 40)– Required DHS to issue a solicitation for statewide Broker
- December 2018 – DHS issues a request for application for three regional brokers (no one broker could have more than 2 regions)
- June 2019 (Act 19) – Required DHS in collaboration with PennDOT and Aging to do analysis before selecting broker or implementing full risk model
- July 2019 – DHS established MATP work group comprised of stakeholders including transit agencies, counties, PennDOT and Aging
- February 2022 – Issued report.

Medical Assistance Transportation Program Stakeholder Input and Options Analysis Workgroup Summary Report (pa.gov)

WHAT COMES NEXT

- **MATP Collaboration** – Human Services Transportation (HST) organizations work together within counties to create a shared vision and achieve common goals.

- **MATP/Shared-Ride Coordination** – Increase coordination between MATP and shared-ride coordinators in counties where they are different.

- **MATP/HST Coordination** – Relevant state agencies coordinate with each other before making decisions that have the potential to significantly impact HST.

- **Statewide Standards** - Review and develop statewide service standards with the goal of streamlining functions across the state while enhancing consumer and stakeholder experiences where possible

WHAT COMES NEXT (CONT.)

- **Standardize Processes** – Standardize MATP processes, such as the application, needs assessment, verification, scheduling, vehicle tracking, and data collection across the state.

- **Technology** – Review and address the technology needs of MATP providers, develop technology-related goals, and create a plan to achieve these goals.

- **Communication** – Continue to enhance and increase communication with MATP providers, stakeholders, and consumers. Feedback from a recent county survey and listening sessions showed appreciation for the opportunity to provide input about the MATP.

POST PANDEMIC ISSUES

- Regaining Ridership
- Fiscal Sustainability
- Service changes
  - Same Day Service Pilot
  - Microtransit impacts
  - Driver Shortages
  - Vehicle Shortages

STATEWIDE TECHNOLOGY INVESTMENT

- Ecolane
- Fixed Route Intelligent Transportation System (FRITS)
- Capital Planning Tool (CPT)
- Egrants
- Find My Ride
  - Education
    - findmyride.penndot.pa.gov
  - Apply
    - apply.findmyride.penndot.pa.gov
  - Schedule
    - findmyridepa.org

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DEPARTMENT OF TRANSPORTATION

Cost Allocation

TIMOTHY BRADSHAW

08/03/2022

VERMONT
AGENCY OF TRANSPORTATION

Cost Allocation Plans and Methodologies

In 2019 the Vermont Agency of Transportation (VTrans) contracted with RLS to better understand the public transportation systems (Federal Subrecipients) cost allocation plans and indirect cost methodologies. Vermont is mostly a rural state and public transit systems are supported by Federal financial assistance from the Federal Transit Administration (FTA) administered by VTrans, primarily through 49 U.S.C. §5311, §5310, or §5339. VTrans is responsible to ensure compliance with various applicable Federal financial management system requirements.

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Cost Allocation Plans and Methodologies

VTrans is considered a “pass-through” entity under 2 CFR §200, responsibility may fall to the State to review, negotiate, and approve a subrecipient’s indirect cost allocation plan. At least one subrecipient in Vermont receives both Section 5307 and Section 5311 funds.

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Cost Allocation Plans and Methodologies

Additionally, under National Transit Database (NTD) reporting requirements, when a reporting agency operates multiple modes of service (e.g., fixed route service and demand response service), the entity is responsible for allocating its transportation expenses and revenues to the two respective modes. FTA is not prescriptive in dictating the allocation methodology to be used to allocate modal expenses. It is the responsibility of VTrans to report on behalf of Section 5311 subrecipients; therefore, the agency is responsibility for exercising oversight on the modal allocation methods employed by its subrecipients.

Project Objectives

VTrans outlined several objectives for RLS:

- Conduct site visits to each of the State's subrecipients of FTA funds and document current cost allocation practices.
- Conduct evaluations of the financial management/accounting systems of each subrecipient with respect to requirements stipulated under 2 CFR §200.300 – 200.309 (Post Award Requirements/ Standards for Financial Management)
- Review financial "health" of each organization
- Determine if the subrecipient employs sufficient internal controls in its management of Federal awards
- Provide assistance to VTrans in understanding the cost allocation procedures employed by each agency

Project Objectives

Objectives (continued):

- Provide recommendations for improvements in financial management procedures for each subrecipient
- Provide recommendations on the feasibility of adopting statewide uniform cost reporting requirements and cost allocation procedures
- Recommend uniform procedures that VTrans can utilize with its subrecipients to document cost allocation practices
- Establish an evaluation framework for VTrans staff to review and evaluate subrecipient cost allocation practices

FTA approved plan and rate

Green Mountain Transit (GMT) is both a direct Federal recipient in the small urban system in Chittenden County and a rural subrecipient for their rural transit locations.

GMT is currently the only Vermont subrecipient that has an FTA approved cost allocation plan and indirect cost rate.

The methods used by GMT in its cost allocation plan are best described as the "Simplified Method," described in 2 CFR § 200, Appendix VII, Section C, §2. In this method, GMT has determined that all the agency's transit services benefit from its indirect (shared) costs to approximately the same degree. In this case, a simple ratio of indirect costs to total agency direct costs yields the indirect cost rate percentage

FTA approved plan and rate

Other transit agencies in Vermont are subrecipients and provide service in the nonurbanized areas of the state. All six of these agencies incur indirect or shared costs that require allocation to a benefitting award or contract. VTrans is currently conducting a phase 2 comprehensive cost allocation review to satisfy the FTA requirement as follows:

When an entity does not have a recognized indirect cost rate negotiated between the subrecipient and the Federal government, either a rate negotiated between the pass-through entity and the subrecipient or a de minimis indirect cost rate as defined in 2 CFR §2 00.414 can be used to claim indirect costs.

Site Visit Findings

A common theme from the subrecipient site visits were a heavy reliance on Excel spreadsheets to perform the hundreds of computations needed each billing period to conduct the allocation process. The consultant discovered data entry errors at several locations as a result.

Consultant noticed that the Excel spreadsheets in many cases were not supported or integrated with the agency accounting software as a system of double checks.

Two subrecipients merged transit divisions but continued to maintain separate accounting records for each transportation division even though federal and state awarding agencies imposed no such requirements. This has since been resolved.

Site Visit Findings

RLS identified opportunities to streamline practices by setting annual rather than monthly factors that could reduce administrative burdens on the organization.

Most subrecipients conduct the allocation process on a monthly basis, recalculating all allocation factors based on actual data recorded that billing period rather than establishing an approved indirect rate and truing up at fiscal year end.

VTrans will permit “carry-forward” provisions. When a fixed rate is negotiated in advance for a fiscal year, OMB permits the over- or under-recovery for that year to be included as an adjustment to the indirect cost rate determined in the next rate negotiation.

When the rate is negotiated before the carry-forward adjustment is determined, the carry-forward amount may be applied to the next subsequent rate negotiation. This is similar to the practice currently employed by GMT with FTA.

Site Visit Findings

At multiple locations, this study has found that key financial staff had not received sufficient training on crucial grants management requirements – OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. VTrans staff indicated that the state has sponsored no training on this crucial topic, deemed essential for any non-federal entity that receive federal grant funding. In one case, the chief financial officer was unaware such guidance had been issued.

This is essential knowledge that must be adhered to in the management of all FTA grants. FTA evaluates understanding, training, and credentials of financial staff in assessing compliance of its recipients and subrecipients. VTrans needs to demonstrate leadership in this area and arrange for all its grantees to undertake this training.

Site Visit Findings

Throughout the process, some adverse comments have been rendered on the over-reliance on the use of spreadsheets as a supplement to the transit agency's accounting software. Additionally, in some cases personnel were not adequately trained in Microsoft Excel and very little steps or internal controls were in place to protect the integrity of the data input or spreadsheet output.

Corrective actions

RLS and VTrans developed a cost allocation template that allocates allowable costs that automatically perform the required computations in the background. The template was developed to ensure data input is allocated appropriately to defined object class definitions as cited in Appendix A – Model Chart of Accounts for Rural Public Transportation Systems. The corrective actions negated some of the integrity concerns expressed during the site visits.

Questions?

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