

# Billings, Audits, and Payments of Federally Funded Local Agency Projects

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[Editor's Note: The following is a detailed outline for the procedures used in billings, audits, and payments of federally funded local agency projects. For more information on any one of the procedures contact Rick Whitney (Central Office, IDOH, phone: 317-232-5368). Appendix A of this paper contains copies of a number of completed sample forms used in the procedures outlined. Appendix B is a copy of U.S. Department of Transportation, Federal Highway Administration, Federal-Aid Highway Program Manual, Volume 1—Payment Procedures, Chapter 4—Reimbursement, Section 5—Payroll and Related Expense of Public Employees; and Cost Accumulation Centers and Distribution Methods.]

## INTRODUCTION

### *Topic of Presentation*

1. Audits—Audit Reports
2. Billings—Partial and Final
3. Payments—Partial and Final

### *Objectives*

1. Make the readers aware of:
  - a. Scope of audits
  - b. Record keeping requirements
  - c. Frequently encountered problems
  - d. Audit reports

### *Motivator*

1. If the local agencies are more knowledgeable about record keeping requirements, audit reports, billing and payments procedures, then local agencies are more likely not only to have their full share of federal or state funding, but also on a more timely basis.

## DISCUSSION

### *Scope of Audit*

1. To determine total audited project costs
  - a. Labor
  - b. Fringes or overhead rates
  - c. Material
  - d. Equipment costs

- e. Travel
  - f. Fees
2. To determine the amount of audited costs eligible for federal or state funding
    - a. Agreement maximum
    - b. Lump sum portions
    - c. Costs after authorization
    - d. Allowable per federal and state regulations
  3. Recommend the balance due to the LPA or state
  4. Our audit does not include any kind of technical evaluation of work performed. Technical aspects and final acceptance of work are done entirely by field and project engineering personnel.

***Supporting Documentation for Project Costs***

1. What will an auditor be looking for to support project costs, before on-site visit.
  - a. LPA—State Agreement
  - b. LPA—Consultant Agreement
  - c. Approval by FHWA
  - d. Date of Notice to Proceed by FHWA, State, LPA
  - e. Authorization to subcontract
  - f. Supplemental Agreement
  - g. Maximum Agreement Amount
  - h. Billings and Payments to date
  - i. Availability of Funds if Construction Engineering
2. What an auditor will be looking for to support project costs while on site (either LPA and/or Consultant)
  - a. Labor Hours
    - 1) Time sheets for *all* hours worked by employee during the time period involved
    - 2) Project chargeable hours must be designated by projects ID number
  - b. Labor Rates
    - 1) Payroll records, including records of gross pay for the pay period, cancelled pay checks for the pay periods involved, and time sheets covering the payroll period.
    - 2) To compute the audited hourly rate, gross pay is divided by the *total* hours worked in the pay period, as supported by the time sheets.
  - c. Fringe Benefits
    - 1) Includes sick, vacation, holiday pay, and employer's share of insurance, PERF, and payroll taxes.

- 2) To compute a fringe rate, total fringe costs for the department and divide that total by total chargeable labor and results in a percentage for billing.
  - 3) Apply fringe rate computed to labor billed e.g.
 

\$100 labor	
	20% fringe rate
	\$ 20 fringe cost
  - 4) To verify this computation we would:
    - verify S.V.&H. amounts to time sheets and get hours of S.V.&H. time taken and apply hourly rates.
    - verify insurance premiums to paid statements.
    - verify PERF premiums to paid statements.
    - verify FICA and other P/R tax payments to appropriate payment documentation, (e.g. payment to IRS, bank deposits, etc.)
    - all payments would be traced to canceled checks to insure payment was made.
- d. Overhead Rates (Consultants)
- 1) Includes Consultant's fringe benefits and indirect costs
- e. Material
- 1) Not an item normally billed on engineering projects
  - 2) May be billed to the projects if an item of material can be specifically identified as having been used solely for this project
  - 3) Must be supported by:
    - invoice showing cost of material used.
    - cancelled check showing it had been paid for.
    - usage records which document that the item was used specifically for this job.
- f. Equipment Costs
- 1) Usage (hours or miles)
    - equipment usage log is required to record *all* units (hours or miles that the equipment is used).
    - log must denote which hours or miles were for our project.
  - 2) Rates (costs per hour or mile)
    - total cost for the equipment during the year (depreciation, taxes, insurance, maintenance, etc.) divided by hours or miles used as per usage log for that year.
- g. Travel Costs
- 1) Personal auto reimbursement
  - 2) Travel Expense
    - Travel expense voucher designating costs reimbursed

for travel (mileage, per diem & hotel) were for our job.  
—cancelled check showing amount was actually paid  
to the employee.

### ***Frequently Encountered Problems***

1. Labor Hours
  - a. No record of hours actually worked on the project.
    - 1) Hours charged the job on some random basis (e.g. 50% of John Doe's time this month.)
    - 2) Hours charged the job were all hours for employees who worked totally on this job, but no records were kept documenting that they worked totally on this job.
  - b. Record of hours on jobs are maintained, but not properly segregated on a time record.
    - 1) E.g. Time sheet may show Washington Street project, but there are two projects on Washington Street. When the hours are billed, there's no way to tell how many hours are attributable to which of the two Washington Street projects.
  - c. If proper records of hours are not maintained, we cannot recommend any labor costs be reimbursed.
2. Labor Rates
  - a. Time records do not record *all* hours worked during the pay period. Thus, we cannot give an audited hourly rate because total pay had to be divided by *total* hours worked.
  - b. Rate billed was based on "Standard" work week, (e.g. 40 hours for a week rather than *all* hours worked in a pay period. If 42 hours are worked in a week, the total pay is to be divided by 42 hours to compute the rate.
  - c. If proper records aren't maintained for rate verification, no audit assurance can be given on rate, but can on hours.
3. Fringe Benefits
  - a. Fringes billed are based on projected expenses rather than actual. (e.g. Cost for sick pay included is the cost for all sick days to be available, rather than sick time actually taken.
4. Material
  - a. No usage record maintained documenting its use for our job.
  - b. This would result in no audit assurance on material cost billed.

5. Equipment
  - a. Usage
    - 1) No equipment usage logs kept to document hours or miles the equipment was used on our job.
    - 2) No audit assurance could be given for equipment costs billed.
  - b. Rates
    - 1) No record kept documenting *total* usage of the equipment during the year. Thus, we don't have an audited figure to divide the equipment's cost by to come up with a rate.
    - 2) Thus, no audited rate could be given and audit assurance could only be given on number of miles or hours billed.
6. Travel Costs
  - a. No travel voucher documenting that the costs were incurred for our job
7. Miscellaneous
  - a. Costs incurred prior to notice to proceed
    - 1) No work prior to *written* authorization
    - 2) Confirm verbal authorization from field personnel with central office contact person. Then, follow-up in writing.
    - 3) Costs prior to notice to proceed are not reimbursable
  - b. Failure to locate supporting documents
    - 1) Documents should be maintained for period specified in the agreement
  - c. Failure to receive FHWA and/or state approval to subcontract

### ***Audit Reports***

1. Reports sent to project director (Division of Local Assistance)
2. Although the report is not a standard report, it would commonly contain the following information:
  - a. Billed costs (by LPA or consultant)
  - b. Adjustments
    - 1) lack of support (labor, travel)
    - 2) provisional to actual
  - c. Total audited costs
  - d. Audited eligible costs for federal or state reimbursement
    - 1) agreement maximum
    - 2) after notice to proceed
    - 3) approvals for subcontracting
    - 4) unbilled audited costs

- e. Federal or state participating percentage
- f. Amount paid to date
- g. Balance due
  - 1) may include two balance due amounts if unbilled audited costs
  - 2) may not include balance due if costs are in excess of 10% allowed for construction engineering

## BILLINGS

### *Brief Description of Duties Involving LPA Billings*

## PAYMENTS

### *Brief Description of Duties Involving LPA Payments*

## SUMMARY

### *Basic Things to Keep in Mind in Order to Insure Full Reimbursement of Total Project Costs*

1. Make sure you have a properly executed agreement
2. Don't do work until given written notice to proceed
3. Document all costs by proper record-keeping of any costs incurred that benefit the project
  - a. If you're in doubt as to what proper records are, contact the IDOH program manager. If he is unsure, we will advise him accordingly.
4. Failure to follow these simple guidelines is likely to result in lost funds on these projects

## APPENDIX A

### Some Completed Sample Forms Used for Federally Funded Local Agency Projects

**Exhibit "A"**

State Form 40340 R  
Form A-12 LPA  
Rev. 7-81  
Approved by State Board of Accounts - For Indiana State Highway Comm. - 1980

**INDIANA DEPARTMENT OF HIGHWAYS**

**CLAIM - VOUCHER**

Warrant No. \_\_\_\_\_

STATE AGENCY FILL IN. This form may be used only for claims chargeable to Services Other Than Personal.

400-800 (Maintenance)	
400-801 (Construction)	
400-802 (Administration)	
AMOUNT TO BE PAID	

Claimant's Name and Address: Any County Highway Dept. Any Town, Indiana

FURNISHED TO: Indiana Dept. of Highways

DISTRIBUTION											
STATE AGENCY	Location	Function	Object	Cust. Account	PROJECT NO.				Contract No.	Co. Code	TOTAL CLAIMS
					Prefix	Number	Sec.	Paren.			
FILL IN											
Vo. No. <u>CV</u>										TOTAL	

Line No.	Description	Amount
1	Claim No. <u>1</u> Project No. <u>RS-000C(0)</u> Contract No. <u>T-00000</u>	
2	This claim-voucher is for: (Preliminary) ( <del>RS</del> ) ( <del>000000</del> ) Engineering, Force Account <del>XXX XXXX</del> Costs	
3	Project Description <u>Traffic Signs</u>	
4	Period covered by this claim-voucher: From <u>6-1-81</u> To <u>6-30-81</u>	
5	Gross amount of previous claims	\$ <u>-0-</u>
6	Net amount of previous claims	\$ <u>-0-</u>
7	This <del>is</del> (is not) a final claim-voucher. (Time Certification must be included with final claim-voucher)	
8	Gross amount of this Local Agency Claim	\$ <u>149.92</u>
9	Federal Share Reimbursable (\$ <u>149.92</u> x <u>75%</u> )	= \$ <u>112.44</u>
10	Less State Retainage @ _____ %	-\$ <u>-0-</u>
11	Net Amount of this claim-voucher	= \$ <u>112.44</u>
Total		\$ <u>112.44</u>

RECOMMENDED FOR APPROVAL	DATE
_____ Official Initiating the Charge	
_____ Division of Accounting and Control (Department of Highways)	
I certify that the claim is correct and valid, and is a proper charge against the State Agency and Account Number indicated.	
Indiana Department of Highways	

Pursuant to the provisions and penalties of Chapter 115 Acts of 1953:

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

7/3/81 x Robert A. Smith  
Date (If a firm or corporation, give name)

XX By \_\_\_\_\_  
Personal Signature

**Exhibit "B"**

**SAMPLE BILLING**

<b>Any County Highway Department</b>	
For Preliminary Engineering services performed on project RS-000C(0), June 1, 1981 through June 30, 1981:	
Labor:	
Engineer 10 hours @ \$ 9.76 per hour	\$97.60
Clerical 1 hour @ \$ 4.00 per hour	<u>4.00</u>
Total Labor	\$101.60
Fringe Benefits (101.60 x 20%)	<u>20.32</u>
Total Labor and Fringe Benefits	\$121.92
Material:	
100 Stakes	20.00
Equipment:	
Auto (40 miles @ 20¢ per mile)	<u>8.00</u>
Total Billing	<u>\$149.92</u>

**Exhibit "C"**

**SAMPLE TIME SHEET**

Any County Highway Department

<u>Ted L. Doe</u>		<u>June 1 thru 12, 1981</u>													
Employee		Pay Period Covered													
Project	M	TU	W	TH	F	SA	SU	M	TU	W	TH	F	Total		
RS-000C(0)		2						2					10		
C. P. 800N		2	2	2	2				2		2	2	56		
Admin.	2									2			16		
Total	2	10	2	2	2			2	2	2	2	2	92		

\$ 800.00  
Salary

Employee Signature <u>Robert A. Smith</u>	Date <u>6-12-81</u>
Approval Signature	Date



**Exhibit "D"**

**SAMPLE FRINGE RATE**

<b>Account</b>	<b>Amount</b>
Vacation Pay	\$ 4,000.00
Holiday Pay	4,800.00
Sick Pay	2,400.00
Unemployment & Workmen's Comp.	1,800.00
FICA	7,200.00
PERF	2,400.00
Insurance	<u>1,400.00</u>
<b>Total Fringe Costs</b>	<b><u>\$24,000.00</u></b>
<b>Total Direct Labor Costs</b>	<b>\$120,000.00</b>
Fringe Rate = $\frac{\$ 24,000.00}{\$120,000.00} = 20\%$	

**Exhibit "E"**

**SAMPLE MATERIAL REQUISITION LOG**

Any County, Indiana					
Material Requisition Log					
<u>Description</u>		<u>Stock No.</u>	<u>Price</u>		
<u>Stakes</u>		<u>1037</u>	<u>.20 \$</u>		
Date	Job No.	Requisitioner	In	Out	Balance
4/3/81	N/A	M. Jane	500		500
5/2/81	15081	E. Z.		50	450
6/4/81	RS-0006)	J. Doe		100	350
7/7/81	R70266)	J. Doe		100	250

**Exhibit "F"**

**SAMPLE EQUIPMENT USAGE LOG**

Any County, Indiana  
 Equipment Usage Log

Equipment Title  
 974 Ford Dodge

ID Number  
 47163

Operator  
 John Doe

Month  
 March

Date																
Job No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
RS000C(a)			10	10	10			10								40
SR000R(a)									10	10	10					30
General	17	11	7						7			17			7	66
Total	17	11	17	10	10			10	17	10	10	17			7	136


**Exhibit "G"**

**SAMPLE EQUIPMENT RATE**

Any County, Indiana Summary Equipment Usage Log			
Equipment	<u>1977 Gray Dodge</u>		
ID Number	<u>47103</u>		
	Date		
Month	1 - 15	16 - 30	Total
Jan.	210	237	447
Feb.	343	--	343
Mar.	136	142	278
Apr.	173	101	274
May	1137	1208	2345
Jun.	1173	1211	2384
Jul.	1156	1250	2406
Aug.	1116	1302	2418
Sep.	1123	1107	2230
Oct.	1109	1093	2202
Nov.	1207	124	1331
Dec.	1108	67	1175
Total	XXXXXX	XXXXXX	17,238

Operating Costs:	1,600 gallons of gasoline @ \$1.23 per gallon	\$1,968.00
	5 quarts of oil @ \$0.90 per quart	4.50
	Depreciation: \$4,000 over 4 years	1,000.00
	Insurance	275.00
	Repairs & Maintenance	320.10
	Total Operating Cost	\$3,567.60
	Rate = $\frac{\$ 3,567.60}{17,838}$	= \$0.20 per unit

## APPENDIX B

	U. S. DEPARTMENT OF TRANSPORTATION <b>FEDERAL HIGHWAY ADMINISTRATION</b> <b>FEDERAL-AID HIGHWAY PROGRAM MANUAL</b>
VOLUME    1	PAYMENT PROCEDURES
CHAPTER    4	REIMBURSEMENT
SECTION    5	PAYROLL AND RELATED EXPENSE OF PUBLIC EMPLOYEES; GENERAL ADMINISTRATION AND OTHER OVERHEAD; AND COST ACCUMULATION CENTERS AND DISTRIBUTION METHODS

Transmittal 334  
 March 31, 1981  
 HFS-21

- Par. 1. Purpose
2. Authority
  3. Reimbursable Costs
  4. Salaries and Wages
  5. Travel and Transportation
  6. Employee Leave and Holidays
  7. Social Security, Retirement, and Other Payroll Benefits
  8. General Administration and Other Overhead
  9. Use of Cost Accumulation Centers and Cost Distribution Methods
- 
1. PURPOSE.\* *To prescribe policies and procedures for reimbursing a State highway agency (SHA) for the costs of salaries, wages, and related costs incurred by its employees or by those of a county, city, or other local public agency (LPA) for the benefit of a federally participating highway project.*
  2. AUTHORITY. *23 U.S.C. 114 (a), 315, 23 CFR 1.11(a), and 49 CFR 1.48(b).*
  3. REIMBURSABLE COSTS. *The costs of salaries, wages, and related costs may be reimbursable for the following activities:*
    - a. *Preliminary Engineering. Location, design, and related work preparatory to the advancement of a project to physical construction.*
- \* Italicized material is published in 23 CFR 140G.

- b. **Construction Engineering.** *The supervision and inspection of construction activities; additional staking functions considered necessary for effective control of the construction operations; testing materials incorporated into construction; checking shop drawings; and measurements needed for the preparation of pay estimates.*
- c. **Acquisition of Rights-of-Way.** *The preparation of right-of-way plans; making economic studies and other related preliminary work; appraisal for parcel acquisition; review of appraisals; preparation for and trial of condemnation cases; management of properties acquired; furnishing of relocation advisory assistance; and other related labor expenses.*
- d. **Highway Planning.** *The orderly and continuing assembly and analysis of information about highways, such as the history of development and their extent, dimensions and conditions, use, economic and social effects, costs, and future needs.*
- e. **Research and Development.** *The search for more complete knowledge of the characteristics of the highway system and the translation of the results of research into practice.*
- f. **Administrative Settlement Costs—Contract Claims.** *Services related to the review and defense of claims against Federal-aid projects, as provided for in the Federal-Aid Highway Program Manual, Volume 1, Chapter 4, Section 2, Subsection 4, Administrative Settlement Costs—Contract Claims.*
- g. **Miscellaneous Functions.** *Costs incurred for other activities which are properly attributable to, and for the benefit of, Federal-aid projects but are not assignable to any of the previously defined functions.*

#### 4. SALARIES AND WAGES

- a. *Subject to appropriate authorization requirements. Federal funds may participate in the cost of salaries, wages, and related payroll expenses incurred for periods of time public employees are actively engaged, either directly or indirectly, in project-related activities.*
- b. *Salaries, wages, and related payroll expenses of an SHA for maintenance, general administration, supervision and other overhead are not eligible for reimbursement except as provided for in paragraph 8b.*

#### 5. TRAVEL AND TRANSPORTATION

- a. *Federal funds may participate in the cost of commercial transportation, privately owned automobiles, and per diem or subsistence which is essential to the prosecution of the project and is performed in accordance with prescribed procedures.*
- b. *Reimbursement may be made for use of privately owned automobiles and per diem or subsistence which is incurred in conformance with established reimbursement policy of the SHA or LPA.*

## 6. EMPLOYEE LEAVE AND HOLIDAYS

- a. *An SHA or LPA may claim reimbursement for the costs of leave, i.e., annual, sick, military, jury, etc., that is earned, accounted for, and used in accordance with established procedures. The cost of such leave must be a liability of the SHA or LPA, must be equitably distributed to all activities, and the pro rata costs distributed to a Federal-aid project must be representative of the amount that is earned and accrued while working on the project.*
- b. *Compensatory leave granted by an SHA or LPA in lieu of payment of overtime to eligible employees may be claimed for reimbursement if accrued and granted under established policies on a uniform basis. Such leave costs must meet the criteria discussed in paragraph 6a above.*
- c. *Costs for other leave of a similar nature which may be peculiar to a specific SHA or LPA may also be reimbursed provided it meets the criteria set forth in paragraph 6a above.*

## 7. SOCIAL SECURITY, RETIREMENT, AND OTHER PAYROLL BENEFITS

- a. *Federal funds may participate in allocable costs incurred for social security, retirement, group insurance premiums, and similar items applicable to salaries and wages of public employees engaged in work in Federal-aid projects.*
- b. *The costs for such benefits must be a liability of the SHA or LPA and must meet the criteria set forth in paragraph 6a above.*

## 8. GENERAL ADMINISTRATION AND OTHER OVERHEAD

- a. *General administration, supervision, and other unallowable overhead costs of an SHA are those considered necessary for the management, supervision, and administrative control of a suitably equipped, staffed and operational SHA. Examples of such unallowable costs may include, but are not limited to, the following types of personnel, related payroll benefit costs, and other administrative or support services:*
  - (1) *Directors, department heads, legal, accounting, budgeting, internal auditing, personnel, and procurement units.*
  - (2) *Related clerical, secretarial, and other support services for officials and personnel listed in paragraph 8a(1).*
  - (3) *Management, supervision, and administrative overhead costs incurred by other units or departments of State, county, or city governmental organizations.*
- b. *Costs incurred for services rendered by employees generally classified as administrative may, however, be considered eligible for reimbursement for:*
  - (1) *a highway planning unit and a research and development unit, in the ratio of time spent on the participating portion of work in the unit to the total unit's working hours, and*

- (2) *other operating units if such employees are assigned for specific identifiable periods of time to perform project-related activities in the same manner as other operating personnel.*

## 9. *USE OF COST ACCUMULATION CENTERS AND COST DISTRIBUTION METHODS*

- a. *Cost accumulation centers, i. e., cost centers, cost pools, or other acceptable cost accumulation methods, may be used to capture related types of costs for later distribution to all projects or other benefiting activities for which work was performed during the accounting period. The accounting and cost distribution procedures must be in accordance with paragraph 9b for types of costs incurred under the following general criteria:*
  - a. (1) *Salaries, wages and related payroll benefit costs may be incurred during a payroll accounting period which affects a number of projects and, therefore, may not be easily adaptable to charging directly to individual projects due to such factors as (a) incompatibility of time increments for individual projects, (b) an inordinate amount of time or additional number of documents to provide separate project coding, or (c) a documented reduction of overhead costs in the elimination of processing source and coding required, increased electronic data processing applications, and additional accounting requirements.*
  - (2) *Small items of costs may be incurred which affect several projects and would result in a disproportionate amount of time and number of documents for separate project accounting in relation to the amount of costs involved.*
  - (3) *Items of costs may otherwise be eligible for reimbursement but, due to their nature and the small amounts involved, they are not being claimed for reimbursement, since the additional overhead costs required for separate project coding and effective internal controls are not cost beneficial in relation to separate project reimbursable amounts.*
  - (4) *The items of cost must be directly attributable to and properly allocable to the projects to which they are distributed. They must not lose their identity, i. e., type, amount, purpose for which incurred, whether federally participating, input source, etc.*
- b. *The use of separate accumulation centers for comparably related types of costs is a prerequisite to the use of percentages, or other acceptable distribution methods, for cost distribution to benefiting projects or other activities. The accounting procedures and methods of distribution used must have prior concurrence of the Federal Highway Administration, be representative of average actual and equitably distributed to all projects and activities for which work was performed during the accounting period irrespective of source of funds, (2) provisions are established for an adequate segregation of costs and separate distribution methods for similarly related*

*types of costs, (3) actual costs and liabilities are fully accounted for and controlled, and (4) reviews are made periodically, and the rates or other distribution methods are adjusted at least once annually by any over-or under-distributed accumulated costs from the cost accumulation center for the preceding accounting period.*

- c. Percentages representative of average actual costs may be used to distribute leave, social security, and other payroll benefits. Such rates are based on prior cost experience adjusted by anticipated known factors which will affect overall costs during the current year, i. e., scheduled salary increases, changes anticipated in insurance premiums, etc.*