STATE OF ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES **Policy and Procedure**		POLICY AND PROCEDURE NUMBER **06.04.003**	PAGE 1 of 4
		EFFECTIVE DATE June 1, 2006	
SUBJECT **Questioned and Disallowed Expenditures on Federal Projects**		SUPERSEDES FMOM 05.20.070	DATED September 17, 1999
CHAPTER **Finance**	SECTION **Revenues**	APPROVED BY Mike Barton	

PURPOSE

This formalizes the policy and procedure of the department on handling federal project expenditures that are questioned or disallowed by the Federal Highway Administration (FHWA), the Federal Aviation Administration (FAA), and various auditors.

POLICY

Federal project expenditures that are questioned or disallowed by the FHWA, the FAA, and various auditors will be handled according to the procedure below.

PROCEDURE

Identification of questioned or disallowed expenditures

The department sometimes bills the FHWA or the FAA for a project expenditure that the federal agency subsequently questions or disallows as a participating[1] expenditure. The federal agency informs the department of the questioned or disallowed expenditure by means of an ineligibility notification. The FHWA provides this notification on form PR-1367. The FAA uses a formal letter. The FAA also sometimes informs the department of a disallowed expenditure in its response to the department's final billing on a project. The ineligibility notification or FAA response to a final billing requires the department to take appropriate accounting action.

Audits and reviews may also identify specific federal project expenditures as questioned or disallowed. Such audits and reviews performed by the department's Office of Internal Review are handled in accordance with policies and procedures stated elsewhere. When audit and review reports issued by the Division of Legislative Audit or by independent auditors identify questioned or disallowed project expenditures, the director of the Division of Administrative Services (DAS) forwards a copy of the report to

[1] *Participating* refers to eligibility for federal reimbursement. Participating expenditures are posted to a ledger code ending in "2."

the appropriate federal agency. The department then responds to the audit or review report as discussed below for ineligibility notifications.

Distribution of ineligibility notifications and FAA responses to final billings

The ineligibility notification or the FAA response to a final billing is normally received by the DAS director, who forwards it to the third party billing system (TPBS) coordinator in the department's capital improvement projects management and finance section. The TPBS coordinator is responsible for tracking the document and its resolution. The TPBS coordinator prepares a written request for the DAS director's signature asking the affected director[2] to take action. The TPBS coordinator sends this written request and a copy of the ineligibility notification or FAA response to the director and sends copies of both documents to the affected regional project control chief and to the chief contracts officer.

Director's action required within 30 days

Within 30 calendar days after the date on the FHWA or FAA document, the director must (1) take accounting action to adjust the cited expenditures and (2), if responding to an ineligibility notification, provide the commissioner a written response to the FHWA or FAA document. If responding to an FAA response to a final billing, only the accounting action is taken.

If the 30-day deadline for either task cannot be met, then before the 30 days have elapsed, the director must provide the commissioner a written explanation (with a copy to the DAS director) of why cited expenditures cannot be moved or the written response cannot be provided within 30 days.

The director may delegate these and subsequent actions in this P&P.

Accounting action

The director determines which cited expenditures will be disputed and which will not be disputed. He or she then transfers expenditures that will be disputed to deferred participating[3] and expenditures that will not be disputed to nonparticipating[4]. It is the director's responsibility to identify appropriate funding for nonparticipating expenditures.

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[2] Director means regional or division director and system director or manager, unless the context gives a more restricted meaning.

[3] *Deferred participating* refers to undetermined eligibility for federal reimbursement. Deferred participating expenditures are on hold pending ultimate determination of their eligibility for federal reimbursement. These expenditures are posted to a ledger code ending in "3."

[4] *Nonparticipating* refers to ineligibility for federal reimbursement. Nonparticipating expenditures are posted to a ledger code ending in "1."

Disallowed expenditures in an FAA response to a final billing normally cannot be disputed. The director or manager transfers these expenditures to nonparticipating.

Project control staff execute expenditure transfers at the director's request. After a transfer is executed, project control staff forward to the TPBS coordinator a copy of the financial transaction register (FTR) or equivalent documentation of the adjusting entry. The TPBS coordinator, over the signature of the DAS director, provides copies of the FTR or equivalent documentation to the federal agency.

Written response to the commissioner

The director submits to the commissioner a written response (with a copy to the DAS director) to the ineligibility notification. The response:

- confirms or rebuts the causes cited by the federal agency for questioning or disallowing the expenditures,
- explains why the expenditures were transferred to deferred participating and/or nonparticipating,
- recommends ultimate determination on specific expenditures,
- describes actions taken or being contemplated to remedy the cited problem, and
- includes a draft letter to the federal agency stating and explaining the department's position and (when applicable) providing a timetable for completion and final disposition of the notification.

Project control staff normally assist in the preparation of the written response.

Commissioner's letter to the federal agency

Within 45 calendar days after the date on the FHWA or FAA notification, the commissioner determines the department's position on the cited expenditures and submits the position in writing to the federal agency, with a copy to the DAS director and the program director.

Accounting actions in response to commissioner's letter

Within 30 calendar days after the date on the commissioner's letter, the director must transfer cited expenditures as follows:

If the department's position is that the cited expenditures are nonparticipating, the director instructs project control staff to transfer the expenditures to nonparticipating if they have not already done so. It is the director's responsibility to identify appropriate funding for nonparticipating expenditures.

If the department's position is that the cited expenditures are participating, the director instructs project control staff to transfer the expenditures to deferred participating if they have not already done so. The department waits for a response from the federal agency before taking further accounting action.

Project control staff provide copies of FTRs or equivalent documents to the TPBS coordinator for any actions they take at this point to reallocate expenditures.

Federal agency response to commissioner's letter

The federal agency normally responds in writing to the commissioner. The response either concurs with the department's position and reasoning or formally (and finally) notifies the department that the expenditures are nonparticipating. The commissioner provides copies of the letter to the DAS director and the program director.

Within 30 calendar days after the date on the federal agency response, the director instructs project control staff to take any accounting action necessary to conform to the federal agency's response. This may require the director first to identify appropriate general fund or other authorization not billable to FHWA or FAA. Project control staff provide copies of FTRs or equivalent documents to the TPBS coordinator, who sends copies to the federal agency as verification that the department has taken the requested action.

AUTHORITY

AS 44.17.030

IMPLEMENTATION RESPONSIBILITY

Commissioner, directors, project control chiefs, TPBS coordinator

DISTRIBUTION

All department employees via the DOT&PF website