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## **CHAPTER 6**

# **FINANCIAL MANAGEMENT: INVOICING, PAYMENT, AND AUDIT STANDARDS FOR PROJECT COSTS**

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## 6.1 OVERVIEW

Financial management of Federal and State projects in practice follows similar guidelines and standards. LAs must have the capacity to receive and manage Federal and State financial assistance, along with the capability to determine which quantifiable costs are allowable, reasonable, and allocable under the terms and conditions of the agreement(s) for the disbursement of State and Federal financial assistance. [Section 215.971, Florida Statutes \(F.S.\)](#) establishes requirements for agreements funded with Federal or State financial assistance. The grant agreement and LA financial management of the projects are connected; therefore, financial management information is organized in two chapters.

- **Chapter 5, Grant Agreements (Part I)**
- **Chapter 6, Invoicing, Payment and Audit Standards for Project Costs (Part II)**

See **Chapter 5.1** for additional overview information including the bases for Federal and State requirements.

## 6.2 LOCAL AGENCY PROJECT SCHEDULES & FINANCIAL ACTIVITY

LAs must comply with their grant agreement's general requirements related to financial activity, which is dependent on LAs adhering to project delivery schedules and committed Department production schedules. To do this, LAs carryout projects in a sensible, economical, and efficient manner. To help the LA meet these general requirements and help to reduce LA project funds roll forward, each District shall consider the LA's typical project delivery schedule. The District works with the LA to develop the project schedule and ensure that the project milestone and completion dates are realistic and allows the LA to regularly invoice the Department per their grant agreement.

## 6.3 PAYMENT AND AUDIT STANDARDS

Eligible costs may vary by grant program due to the laws or rules that establish eligibility for the program. Do not assume because an activity and the related costs were eligible for reimbursement under one program or project, those same activities and related costs are eligible on all projects.

In addition, costs are reimbursable as determined by DFS, Florida laws and rules, Federal laws and rules, and the FAR cost principles as applicable. Applicable payment terms and conditions, along with audit requirements are included in each grant agreement entered into with the Department.

Common resources that provide eligibility references and examples:

- ***Exhibit F of the grant agreement “Contract Payment Requirements- Florida DFS, Reference Guide for State Expenditures***
  - ***Cost Reimbursement Contracts***
- ***FDOT Disbursement Operations Handbook***
- ***FAR, 48 CFR 1.31***
- ***FHWA Contract Administration Core Curriculum Manual (CACCM)***
- ***FHWA ER Program Manual***
- ***FDOT CPAM, Section 7.3.11*** has a list of common nonparticipating activities and items.
- ***LPM*** related chapters.

Rules of thumb:

- Funding type of the grant award is the primary method to determine eligible scope and costs. For example, there are more than 50 different fund types under the FAHP and while some align others are unique. TA funds cannot be used for road resurfacing. Bridge replacement or “BRZ” funds cannot be used outside the limits of the bridge.
- Ensure the grant agreement scope captures all intended activities and related costs. Adding scope after the agreement is executed may or may not be allowed. Activities and related costs for “unknowns” should be included if it is reasonable to suspect those elements may be required based on previous projects delivered in the immediate geographical area, such as environmental activities including Cultural Resources Assessment Surveys, archeological monitoring, or endangered species surveys.
- The LA is responsible for complying with Florida DFS guidance and requirements. When assistance is required from the Department, it is best practice for the LA to provide a specific list of costs they intend to invoice the Department for. For example, “fringe benefits” are generally eligible when reimbursing staff salaries for engineering work. There are also types of fringe benefits that are not allowed for reimbursement on State contracts, such as employee cell phone allowances that are not tied to a specific project. An allowability determination by the Department may be needed but cannot occur without the LA providing specifics.

State grant managers are required to review all costs to ensure they are quantifiable, allowable, reasonable, and allocable per **s. 215.971 F.S.** Eligible costs must be for the

benefit of the project being charged, i.e., labor performed directly for that project, supplies used up in the course of a project, materials required to build the project, services required to deliver the project, etc.

The keys to identifying and budgeting for all costs related to the project are:

- Early scoping and project feasibility reviews. Performing site visits at the application stage in project development is helpful in identifying needs vs. wants.
- Consider the project location and if your LA has any special development standards for the area. For example, a downtown master plan may regulate signs, paint, and other aesthetics related to new construction in the area.
- Consider the funding programs available for the type of project you are applying for and any programmatic limitations of that fund source.

Establish nonparticipating costs in writing in the grant agreement when possible; most common is to incorporate this information in **Exhibit A: Project Description and Responsibilities** under “*Special Considerations by the Department*”. If non-participating costs are identified after the grant agreement is executed, the District must communicate in writing the eligibility of the costs. The District may execute a SA to amend the original agreement when needed. The Department has various resources to assist in determining costs that may be ineligible or non-participating.

Generally, items required for safety, because no suitable alternative exists, or that meet established and clearly defined standards and criteria may be participating. While it can be frustrating that there is no “one size fits all” approach, the Department must make the determinations on a project-by-project basis due to the wide-ranging variables that arise in transportation project delivery by a LA. Cost eligibility varies from program to program, but also varies on whether the project is funded with Federal or State financial assistance, or both. The next section will discuss examples by project phase and by fund program to help further understanding on how the determination process works.

## 6.4 IDENTIFICATION OF ELIGIBLE AND INELIGIBLE COSTS

It would be impossible to provide every example of how and when cost eligibility varies by fund source or project phase and the types of work required to accomplish the phase deliverables. Other chapters of the **LPM** specifically address eligibility by phase of work or topic. For example, **Chapter 19: Right of Way Procedures** discusses what conditions would make participation in acquisition costs ineligible; therefore, those examples will not be repeated here. Establish items, services, and the related costs early in project development. Talk to your District! Notify them immediately or as soon as practical when

your LA suspects a good, service, or deliverable identified may not be required for project delivery.

Common examples of ineligible costs related to Federal and State funding sources and/or performing activities on any phase of work:

- Work outside the scope of the project.
  - Example: The LA constructs sidewalks on a resurfacing project that were not included in the approved design plans.
- Work performed outside of the department approved contract time.
  - Example: The LA starts work before the Department's NTP is issued.
  - Example: The LA allows its contract to expire, and work is not complete. Any work performed to complete the project after the expiration date is not eligible.
- Time extensions that lack justification and/or supporting documentation.
  - Example: A contractor requests thirty (30) weather days. Daily logs document ten (10) eligible weather days, but the additional twenty (20) days requested were not supported by the daily logs. The LA grants all 30 days without the proper justification demonstrating the weather days are warranted based on the daily logs. The Department will continue to participate in 10 days of work past the original contract end date as justified by the daily logs. The LA will incur the construction and CEI costs for the additional 20 days of work that lack supporting documentation. On FAHP projects, the 20 non-participating days past the contract time will be assessed liquidated damages.
- Contingencies. The Department is required to program a project based on actual estimates of project costs. Contingencies may be budgeted by a LA but would not be included in the Department's programmed amount for a project.
- Work performed outside the project limits or outside of the right of way. Ineligible costs include design or other professional services phase costs incurred to include the ineligible work in the Department approved Plans, Specifications, & Estimates (PS&E) package.
  - Example: A contractor is directed to tie into an existing sidewalk during construction. The sidewalk connects to a shopping center, and it is determined the sidewalk is owned by the shopping center and not within the public right of way. This work is not eligible as it occurs outside the public right of way. When Federal assistance is provided, the entire project may become ineligible due to noncompliance with the **Federal Uniform Act**.
- Work deemed to be non-compliant with applicable laws, rules, or standards.
  - Example: A curb ramp is built with a cross slope that does not meet the design plans and is not ADA accessible. The costs related to constructing

the deficient ramp and removing the deficient ramp are not eligible.

- Upgrades. Goods, services, or deliverables that considered upgrades or “premium” costs and would not be required to meet minimum design or construction standards in Florida are generally not going to be eligible for reimbursement with grant funding appropriated by the Legislature or by the FHWA.
  - Example: Department policy on the installation of mast arms allows for standard installation in coastal zones most susceptible to high winds and when intersection geometry eliminates strain pole configurations. Department only reimburses the LA for strain pole configurations outside these conditions and a LA is responsible for excess costs related to upgrading the design and construction with mast arm installation.
  - Example: A project includes replacing existing stormwater piping. Calculations support installation of 18-inch pipe. The LA wants to install larger diameter piping based on future land use and future development. Installation of the larger diameter piping would be a premium cost in this case and the LA would be responsible for excess costs related to purchase and install of the upgraded piping.
- Maintenance related items.
  - Example: LA wants spare parts on hand for future maintenance. Spare parts are not eligible since they will not be installed as a part of the original project.
  - Example: LA requests sidewalk concrete depth of 6-inches when the standard design for the project is 4-inches. LA requests the extra 2-inch depth due to residents parking vehicles on sidewalks in the project limits and the 6-inch depth will last longer/require less maintenance as it will better support the weight of the parked vehicles. This is a code enforcement issue and not a justification for construction that exceeds minimum standards.

Examples of ineligible or nonparticipating pay items, line items, or services encountered on invoices submitted to the Department. For specific projects, the following items are not eligible for Federal or State participation as noted:

- Equipment purchase and repair: requires specific approval by the Department, (i.e., engineering, safety, or office equipment and supplies). Tangible assets are required to be identified in contracts per State law.
- Stockpiled Supplies: purchased and consumed on a number of projects or for the general management or operation of the organizational unit (example would be in maintenance or in administration - signs, small tools, and temporary traffic control devices).
  - State funded projects- stockpile supplies may be reimbursed when original receipts and supporting documentation of the cost per unit is provided (**Ch. 287.057 F.S.**).

- Federal funded projects- stockpile supplies not eligible
- Office Rental- including utilities and telephone service.
- Labor or expenses- for activities not directly related to the project. Labor activities pertaining to the general operation of an agency are not eligible. Indirect costs related to direct project management are addressed in the next section.

### **6.4.1 Fringe Benefits and Indirect Costs Reimbursement Eligibility**

Fringe benefits and indirect costs are often confused. The easiest distinction to make between the two is that fringe benefits are costs directly associated to an employee's compensation and would appear on a pay stub, while indirect costs are incurred agencywide for the LA and cannot be attributed directly to a project.

Fringe benefits are allowances and services provided by the LA to the employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of:

- Leave- annual, sick, holidays, administrative, military, compensatory, or other leave taken
- Employee insurance- life, health, unemployment, disability, and worker's compensation
- Pensions- retirement, optional retirement, and social security

Most fringe benefits are eligible for reimbursement with both Federal and State funds, but nonstandard project related items such as cell phone or uniform allowances will need to be reviewed by the Department for eligibility.

Indirect costs are costs that cannot be allocated or charged directly to a project and most often are incurred through operations of the LA including general expenditures such as personnel management, purchasing, accounting services, etc. These general expenditures are required to provide the staffing, administration, and organizational capacity for direct project delivery. Indirect costs may be allowable for reimbursement, but if an indirect cost rate is approved for use by the Department for reimbursement it must be included in the grant agreement and the LA must have a Federal or State approved indirect cost allocation plan or a de minimis rate supporting the indirect rate paid.

### **6.4.2 Utility Relocations, Adjustments, And Reimbursement**

Reimbursement for utilities relocations and adjustments for both Federal and State

funded projects are dependent on many factors such as:

- Do State laws or local ordinances require payment for relocation?
- Are there agreements that address payment?
- Is the utility in place by permit, lease, easement, or within their own corridor?
- Who is the authority over the highway?
- Who is participating in the costs?
- Whose participation is mandatory?
- Whose participation is voluntary?

The Department's participation in utilities is contingent on the answers to the questions above, an analysis of State laws and rules, and prior approval by Department General Counsel. No utility reimbursements shall be made without an executed utility reimbursement agreement on file and prior approval from Department General Counsel. However, with or without Department participation the LA is responsible for ensuring that the utility work is reasonable, defined, invoiced, and paid in accordance with any applicable Federal or State Law and any accounting requirement of those participating in the costs.

Federal-aid participation in relocation and adjustment costs that comply with **23 CFR 645** may be requested on LAP or other federally funded projects prior to Federal authorization. Participation must comply with this section in full.

## **6.5 PROGRESS INVOICING PROCEDURES**

The Department specifies within the grant agreements the periodic and final invoicing requirements for the projects. By executing the grant agreement(s), the LA is agreeing to the grant program requirement(s) to maintain financial activity through timely submission of invoices.

After the Department has fully executed the grant agreement and any required NTP has been issued, the LA may begin work on the first phase of the project. Progress invoices are required at a minimum quarterly (90 days), unless otherwise specified by the grant agreement. Variations from the quarterly requirement must be identified in the grant agreement and the project monitoring plan. Florida DFS sets forth the requirements to each State agency for invoices and necessary documentation.

### **6.5.1 Local Agency Responsibilities**

Invoice packages submitted to the Department from a LA must include:



- [Form 525-010-53 Local Programs Invoicing Template](#)
- [Form 525-010-54 Local Programs Progress Monitoring Status Report](#)
- LA invoice of all costs for the invoicing period.
- Backup documentation for all costs. Examples include receipts, load tickets, timesheets, proof of payment, daily logs, etc.

When work is performed by LA “forces” or staff, backup documentation must include:

- Timesheets that identify the person, the project number, and the hours charged.
- Pay stubs or pay rolls for each person showing their hourly rate.
  - Fringe benefits are defined in **Section 6.4.1**. If the LA is seeking reimbursement of these costs, they must be identified and defined on the pay stub for each employee.
- Receipts for direct expense items used for the individual project only.
  - Eligible items are discussed in detail in **Section 6.4**.
  - All items purchased must be competitively procured per **s. 287.057 F.S.** Federal-aid project items must be competitively procured to be eligible for reimbursement (**23 CFR 635, Subpart D**).
  - Stockpiled or “warehouse” items must be supported by a receipt. These items are allowed on State funded projects with supporting documentation. These items are generally not allowed on Federal projects without proof of competitive procurement according to the Federal cost principles.
- Mileage and travel costs may be reimbursed if identified in the grant agreement as eligible. Allowances must adhere to the State limits.
  - Travel is generally not eligible when the method of delivery is force account.
  - Mileage would be calculated from the LA’s office location to the project location, not from private residences of the staff. Supporting documentation of the mileage is required in the form of mileage logs, GPS logs, or another method as agreed upon by the LA and the District.

Indirect cost rates are discussed in **Section 6.4.1** and may only be invoiced to the Department under limited conditions.

The LA must ensure the following items are completed to be approved for reimbursement:

- The required forms must be completed in full and signed by the LA’s authorized representative and submitted to the designated FDOT. All forms listed above and the [instructions](#) for completing the progress report are found on the [LAP Forms webpage](#).
- Total costs must reflect both eligible and ineligible or non-participating costs.

Corresponding amounts must be included in the LA invoice and on the ***Local Programs Invoicing Template***.

- Copies of all verified vendor invoices for which reimbursements are being sought that align with the dates, services, goods and/or deliverables included in the agreement. It is the responsibility of the LA to maintain verification or supporting documentation, such as receipts, timesheets, etc. of all invoiced costs in the project files.
- Proof of payment must be provided before the invoice can be approved for reimbursement unless the agreement includes the Alternative Payment Procedure approved by the Department's Comptroller. Proof of payment includes proof the LA paid the prime contractor or consultant and proof that the prime contractor or consultant paid its subs for any work items included in the invoicing period. Proof of payment or receipts for items purchased from a manufacturer must be maintained in the project files and provided upon request.

Invoice packages missing any items listed here or provided with incomplete documentation, including missing signatures or incorrect dates will be rejected by the Department for correction and resubmittal. Payment standards and eligible costs are discussed in **Sections 6.3** and **6.4**.

### **6.5.2 Department Responsibilities**

Invoice payment requirements set forth by the Florida DFS do not start until a properly completed invoice is provided to the Department. The Department is allowed a maximum of twenty (20) days from the date the invoice is received to review/inspect and approve the goods and services billed in the invoice package. The Department has 20 days to deliver a request for payment to DFS. If payment to the LA is not available within 40 days, a separate interest penalty at a rate established in [s. 55.03\(1\) F.S.](#) will be due and payable to the LA. **It is a critical responsibility of every Department project manager to review and reject or approve invoices within the twenty (20) days allowed by the grant agreement.**

Invoice package review and approval or rejection process is as follows. The District will process requests for payment using standard Department procedures including, but not limited to:

1. Review the invoice package to ensure all necessary forms, invoice, and backup documentation is received demonstrating that:
  - All deliverables have been provided by the consultant or contractor and accepted by the LA.
  - All payments for which reimbursement is being sought are allowable,

- reasonable, necessary, and allocable under the terms and conditions of the Agreement.
- Reject in writing invoice packages that do not contain the required information as outlined in **Section 6.2.1**.
2. Confirm the amount of prior disbursements made under the agreement, and that the agreement balance is sufficient to cover the reimbursement request. A *FLAIR Payment History Report* may be needed.
  3. Create the **Summary of Contractual Services Agreement/Purchase Order (Form 350-060-02)** in CFM and route for necessary signature approval(s).
  4. Forward the approved **Summary of Contractual Services Agreement/Purchase Order (Form 350-060-02)** and the required documents listed below to the District Financial Services Office (FSO) for processing and transmission to DFS for payment within 20 days of receipt.

Invoice packages submitted for payment by the FSO to the DFS must include:

- **Form 350-060-02 Summary of Contractual Services Agreement/Purchase Order** ([Instructions](#))
- **Form 525-010-53 Local Programs Invoicing Template**
- **Form 525-010-54 Local Programs Progress Monitoring Status Report**

Backup documentation for each invoice is to be kept in the project file and made available upon request to all interested parties including the FSO, DFS, and when applicable the FHWA or other Federal and State agencies.

## 6.6 MINIMUM MONITORING PLAN REQUIREMENTS FOR FEDERAL-AID PROJECTS

As discussed in **Section 5.3**, a risk assessment and project specific monitoring plan must be developed prior to the Federal award. Federal award date under Department process is considered the Federal Authorization date. **Table 1** contains the minimum financial monitoring requirements as determined by risk that must be incorporated into each monitoring plan. Department grant managers may impose additional monitoring requirements for projects based on findings of noncompliance on other projects delivered by the LA in the past, or if current findings of noncompliance occur on active projects.

See **Section 5.12** for related financial management monitoring requirements.

**TABLE 1: Minimum Monitoring Requirements for Federal-Aid Projects**

MONITORING REQUIREMENT	REQUIREMENT DESCRIPTION AND ACTIVITIES	MINIMUM FREQUENCY BASED ON RISK LEVEL
Invoices	Verify that all requested costs identified on the LP Invoicing Template have supporting documentation and have been paid for by the Subrecipient. If issues are detected in the full invoice reviews that are significant a review meeting must be scheduled with the LA. If issues are not adequately resolved, expand invoice review sample to next risk level frequency and place agency on a corrective action plan. Invoicing reviews occurring more often than quarterly will need to be defined in Exhibit A of the grant agreement.	Low- quarterly invoice submittals and biennial full invoice reviews  Moderate- quarterly full invoice submittals and reviews  Elevated- quarterly full invoice submittals and reviews  High- monthly invoice submittals and full invoice reviews
Project Monitoring Status Reports ( <i>Form No. 525-010-54</i> )	Project Monitoring Status Report forms must be submitted with each invoice and may be required more frequently by the grant manager. The information provided on the form must be verified by review of deliverables and/or field inspections. Status report submittals occurring more often than quarterly will need to be defined in Exhibit A of the grant agreement.	Low- quarterly status report submittals and biennial verification reviews as part of the invoice review process  Moderate- quarterly status report submittals and quarterly verification reviews as part of the invoice review  Elevated- monthly status report submittals and quarterly verification reviews as part of the invoice review.  High- monthly status report submittals and monthly verification reviews as part of the invoice review

## 6.7 RESOURCES

See *Section 5.13*.