



Oregon Department of Transportation

Public Transportation Division

355 Capitol Street NE

Salem, Oregon 97301-3871

Phone 503.986.3300 • Fax 503.986.4189

Addendum to QE - Subrecipient Oversight Compliance Guide

Monitoring Subrecipient Compliance for Statewide Transportation Improvement Fund (STIF) Requirements

Revised: January 6, 2025

Introduction

The purpose of this addendum is to address a number of issues not considered in the original Qualified Entity (QE) – Subrecipient Oversight Compliance Guide. In addition to updating this introduction, this addendum updates the guide, primarily clarifying the rights and responsibilities of QEs and Subrecipients in the following scenarios:

- Section 3 – Internal Controls
 - QE recommendations on Subrecipient internal controls
 - Internal controls tests by third-party auditor
- Section 4 – Financial Management
 - AUP identifies missing supporting documentation
 - QE determination that financial management documentation is inadequate
 - Financial management component of this guide conducted by a third-party auditor
- Section 5 – Eligible Uses of STIF Funds
 - Clarify AUP and Expense testing are reimbursable to the STIF program
 - Cases where expenditures outside of STIF plan are identified
- Third party auditor expenditure testing

The updates included in this addendum to the QE – Subrecipient Oversight Compliance Guide will be effective on January 6, 2025, and applied retroactively to fiscal years 2023-2025 to STIF compliance monitoring activities where work has not been completed as of the publication of this guidance. A prior version of this addendum was issued on a limited basis in 2022; this most recent version replaces it. This addendum and revisions apply statewide, to all QEs and subrecipients.

For scenarios of oversight not covered in the QE - Subrecipient Oversight Compliance Guide, or this addendum, QEs are to contact ODOT's STIF team and Compliance Program Manager to discuss the situation, establish a resolution, and apply the action together with the subrecipient.

In the event of a dispute in implementation of oversight procedures, either the QE or Subrecipient may engage with ODOT to discuss the nature of the oversight activity. After a review of the disagreement, ODOT will issue a letter to the parties involved on how to resolve the matter.

Section 3 Internal Controls

QEs may make recommendations for best practices but may not pursue changes to Subrecipient management policy. When a QE completes a test that results in a policy change recommendation, QEs will not consider these recommendations as compliance findings, but instead as observations. Subrecipient assumes all responsibility for the resolution and correction for any adverse audit findings.

During the on-site compliance review the internal controls section may be satisfied by a review of the internal control tests completed by third-party auditors during the course of their annual

financial, or single audit, or tests completed during STIF expense testing and AUP procedures.

Section 4 Financial Management

QE shall notify ODOT when the Agreed-Upon Audit Procedures identify areas where supporting documentation is missing or not provided. ODOT will follow up with the Subrecipient to identify what documentation is missing and what, if any, documentation is available. The amount and type of expenditure will determine what, if any, repayment of disbursed grant funds is necessary if documentation cannot be produced and authenticated.

QE shall notify ODOT if other matters related to the Agreed-Upon Procedures are identified. ODOT will follow up with the Subrecipient for corrective actions if deemed necessary. Subrecipient may elect to have the financial management component of this guide be conducted by a third-party auditor chosen by Subrecipient, at the Subrecipient's expense, and the financial management component of this guide may be satisfied by a review of the third-party auditor's report.

Section 5 Eligible Uses of STIF funds

Any costs associated with expense testing and/or Agreed-Upon Audit Procedures that are specific to STIF funds are the sole responsibility of the auditee. QEs are not responsible for paying for independent oversight costs of a Subrecipient. When oversight costs are applicable to the STIF fund, those costs are eligible expenditures of the STIF program and may be included in a STIF plan. General audits, such as a federal single audit and statewide annual financial audits, are not STIF specific and therefore are not eligible costs for STIF program expenditures.

In the event that a QE or auditor identifies expenditures outside of the STIF plan, such as unallowable cost/activities or questioned costs, the QE shall notify ODOT. ODOT will review the expense documentation, STIF plan, and any requests for changes to the STIF plan. Expenditures outside the STIF plan must be resolved by journal entry to apply funds towards STIF allowable expenditures or be repaid by the transportation provider.

Third-party auditor expense testing

Subrecipient may elect to have the annual expenditure testing component of the QE oversight activities conducted by a third-party auditor chosen by Subrecipient. If a Subrecipient opts to use an independent auditor for expense testing of STIF project expenses, and the auditor adheres to the procedures therein, ODOT shall consider the QE in compliance with OAR 732-042-0015(2)(g) with respect to ensuring that STIF funds have been used appropriately. Subrecipient assumes all responsibility for the resolution and correction for any adverse audit comments.

Expense testing should, if possible, be conducted in conjunction with the annual financial audit or federal single audit to reduce the burden to both the auditee and auditor. This allows all the testing, expenditures, internal controls etc., to be completed at the same time. If a third-party auditor is engaged to conduct expenditure testing, the QE will review the expenditure test documents and will not conduct their own testing. The QE will not be held responsible for a

perceived inadequacy in the level of expenditure sampling determined by the auditor. If the QE recommends additional procedures and tests be performed after review of the testing documents, the QE shall notify ODOT as to the need for additional testing. ODOT will review the need for the additional testing and communicate in writing to the subrecipient whether the additional tests and procedures are deemed necessary to complete.

The auditor will conduct a risk assessment at their sole discretion to determine the appropriate level of sampling for expense testing. The auditor will prepare a separate report which shall include:

- The risk assessment process and assumptions
- A table showing a summary of expenditure testing which includes –
 - Allowable/ comply with STIF Plan, Proper authorization, Occurrence, completeness, classification, cut off, and accuracy
- For each project and task –
 - Written description of the procedures performed
 - Results from procedures
 - Findings- written in a 5-part finding (criteria, condition, cause, effect, recommendations)
 - Recommendation(s)/Corrective action(s) – should include person responsible, timeline, and contact information

The report will be submitted to the QE no later than 30 days after receipt of the auditor's final report. QE shall forward the report to ODOT who will follow up with the Subrecipient on any findings, recommendations, and corrective actions identified in the report by the auditor.