



One-Stop Comprehensive Financial Management Technical Assistance Guide Part II

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One – Stop Comprehensive Financial Management Technical Assistance Guide Part II

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One-Stop Comprehensive Financial Management Technical Assistance Guide – Part II

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PART II

ETA GRANT PROGRAMS FINANCIAL MANAGEMENT

INTRODUCTION

Part II of the Comprehensive Financial Management Technical Assistance Guide (TAG) is designed to provide the financial and administrative requirements applicable to Employment and Training Administration (ETA)-funded programs functioning as required partners in the One-Stop system. This section of the TAG amplifies the Workforce Investment Act (WIA or “the Act”) and the accompanying regulations, clarifies expectations, addresses issues commonly occurring in the field, identifies operational problems and possible solutions, models best practices, and provides suggestions and techniques to ensure compliance. Part II contains the common requirements for grants and financial management found in 29 Code of Federal Regulations (CFR) Parts 95 and 97 applicable to all ETA grant programs. The section also includes an appendix listing all the specific regulatory requirements for each of the programs. As stated in the Preface to this TAG, the WIA specifies that a number of ETA-funded programs participate in and deliver core services through the One-Stop system established under Title I. These programs are as follows:

- (1) WIA Title I programs, serving
 - (i) Adults
 - (ii) Dislocated workers
 - (iii) Youth
 - (iv) Job Corps
 - (v) Native Americans
 - (vi) Migrant and seasonal farmworkers
- (2) Wagner-Peyser Act programs
- (3) Welfare-to-Work programs
- (4) Senior Community Service Employment programs
- (5) Trade Adjustment Assistance
- (6) State unemployment compensation programs (in accordance with applicable Federal law).

The Veterans’ Workforce Investment program funded by the United States (U.S.) Department of Labor (DOL) Assistant Secretary for Veterans is also authorized under Title I of the Act. However, it is not an ETA-funded grant program. Specific references to the Veterans’ program are limited to those provisions that apply to all WIA Title I programs.

The specific entities that serve as One-Stop required partners are listed in 20 CFR 662.220. 20 CFR 662.220(a) and (b)(3) list the specific entities that are required partners under WIA Title I programs, and these entities include the grant recipient and/or administrative entity of the local area, and national programs such as Job Corps, the Indian and Native American (INA) program, and Veteran's Workforce Investment programs. This listing does not include the national grants funded under Title I such as National Emergency grants and other pilot or demonstration programs. The organizations operating these programs may and will participate in the One-Stop system. While these are ETA-funded programs, the requirements applicable to these programs have not been included in the TAG as they are not considered to be required partners.

INTENDED AUDIENCE

This section of the Comprehensive Financial Management TAG addresses the financial and grant management requirements to which all ETA-funded programs providing services within the One-Stop system must adhere when providing services under their particular program. Again, the TAG targets state, local, and other grant staff responsible for ensuring that the ETA programs not only provide the necessary program services but also are properly managed and fiscally sound. While financial management personnel may be the primary and most frequent users of this TAG, program administrators and staff are also part of the intended audience.

HOW PART II IS ORGANIZED

This Introduction describes the ETA-funded programs operating as required partners in the One-Stop system and the intended audience for Part II and serves as a user guide by describing the contents of each chapter.

Chapters II-1 through II-15 address the financial management and administrative issues applicable to these ETA programs. An overview of each chapter is given in the following paragraphs.

Chapter II-1, *Fund Distribution*, provides guidance on the various funding mechanisms available to obtain funds under the ETA programs that are either authorized under the Act or ETA-funded required partners in the One-Stop system. The funding mechanisms include formula awards as well as discretionary and competitive grant awards. The chapter also contains a number of charts that display the flow of funds from ETA to grantees.

Chapter II-2, *Financial Management Systems*, describes the elements of an acceptable financial management system as specified in the Uniform Administrative Requirements codified in 29 CFR Parts 95 and 97. These requirements provide the framework to effectively implement and manage grant funds.

Chapter II-3, *Cost Principles*, provides guidance to ETA grant recipients and subrecipients on the allowable cost principles, previously found in the Office of Management

and Budget Circulars A-21, A-87, and A-122 and now codified at 2 CFR Part 220, 2 CFR Part 225, and 2 CFR Part 230, and the Federal Acquisition Regulations (FAR) at 48 CFR Part 31.

Chapter II-4, *Allowable Costs*, provides guidance on both allowable and unallowable costs by type of organization as specified in 2 CFR 220, 2 CFR 225, 2 CFR 230, and the FAR at 48 CFR Part 31, including a discussion of prior approval requirements. The chapter also addresses allowable and unallowable activities specified in either regulations or legislation and contains a matrix of allowable and unallowable costs as described in the circulars.

Chapter II-5, *Cost Classification*, provides guidance on proper classification of direct costs to cost categories and program activities. It includes a discussion of the WIA Title I definition of administrative costs and the applicability of this definition to ETA grant programs and a discussion of the combined administrative funding streams available under WIA Title I formula grants.

Chapter II-6, *Cash Management*, discusses the requirements for cash management contained in the Uniform Administrative Requirements, including the applicability of the Cash Management Improvement Act (CMIA). The chapter also provides an overview of the Payment Management System (PMS) used to draw down funds. It provides guidance on efficient and effective cash management for grantees and subgrantees and discusses the use of a drawdown system for meeting immediate cash needs. A summary of cash management techniques is also included as an attachment to the chapter.

Chapter II-7, *Program Income*, discusses what is and is not included in program income, how to account for it, and what requirements apply to its use. It also provides a discussion of the different treatment of interest for programs funded under WIA Title 1.

Chapter II-8, *Cost Allocation and Cost Pooling (Non One-Stop Shared Costs)*, provides guidance on cost allocation principles, methods of allocating costs, the use of cost pools, the development of cost allocation plans (CAPs), and allocation of personal services costs to ensure that grant costs are properly and equitably distributed to the benefiting cost objectives. The chapter focuses on indirect and shared direct costs of the grants, rather than the shared costs of the One-Stop system.

Chapter II-9, *Financial Reporting*, provides a description of ETA's financial reports, the Basic ETA-9130, and modified versions of the ETA-9130 as they apply to the different formula and discretionary grant programs. Also included in the chapter is a discussion of the electronic reporting system in use for ETA grants. The chapter further provides guidance on subrecipient reporting, annual WIA performance reporting, and additional considerations, such as the Federal Funding and Transparency Act reporting requirements.

Chapter II-10, *Procurement*, provides a discussion of basic procurement requirements applicable to grantees and subgrantees. It also provides guidance on required contract clauses and assurances and includes a discussion of fixed-price performance-based contracts.

Chapter II-11, *Property Management*, addresses the property management requirements of ETA grant programs and the relevant OMB circulars and related regulations.

Chapter II-12, *Audits and Audit Resolution*, outlines audit requirements under the Single Audit Act, OMB Circular A-133, and DOL regulations at 29 CFR Parts 96 and 99. It provides guidance on the resolution of audit findings and administrative appeals, including the appeals process contained in 20 CFR Part 667 Subpart H. It also includes a discussion of the use of “stand-in” costs.

Chapter II-13, *Disposition of Disallowed Costs*, provides a discussion of the methods available to grantees and subgrantees for the payment of disallowed costs, including the waiver of liability and the offset provisions contained in 20 CFR Part 667, Subpart G.

Chapter II-14, *Records Retention*, provides guidance to grantees and subgrantees on proper maintenance of financial and programmatic records that must be accessible to authorized Federal and state staff and that are subject to monitoring, reporting, and audit.

Chapter II-15, *Agreement Closeouts*, explains each recipient’s responsibilities and provides guiding principles for developing closeout procedures at all levels. It also includes the closeout documents currently used by the ETA and instructions for their completion.

CAUTIONS

The information provided in Part II of the TAG is intended to aid ETA-funded partner agencies in administering their particular grant(s) and subgrant(s). It is not intended to supplant or replace regulations and requirements contained in applicable cost principles and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule* (the “Common Rule”) but to provide practical examples and clarification. Wherever the TAG is quoting the Act or the regulations, citations are provided immediately following the reference.

Appendices A through F provide additional resources for the user; Appendix D contains a comprehensive glossary. Within the regulations, legislation, and circulars, there may be more than one definition of a single term. To the extent possible, this TAG uses the more extensive definition or the definition found in the legislation. In addition, some terms may have similar definitions that may be named differently, i.e., grant and award. If in any instance the definitions or their use in this TAG appear to conflict with the Act or Federal regulations applicable to each ETA funded-program, such conflict must be resolved in favor of the Act and the regulations, which take ultimate precedence.

Chapter II-1

Fund Distribution

INTRODUCTION

This chapter provides a discussion of the various funding mechanisms available to obtain funds under the ETA-funded grant programs addressed in this TAG and identified as One-Stop partners. It contains the following sections:

- Federal Budget Process
- WIA Allotments and Allocations
- Non-WIA Allotments and Allocations
- Discretionary Grant Funding
- Attachments II-1-1 through II-1-13: Fund Distribution Charts
- Attachment II-1-14: Fund Availability for WIA Title I programs.

Following the last section, Charts II-1-1 through II-1-13 provide schematic presentations for fund distribution under these programs. Chart II-1-14 provides a schematic presentation of fund availability for WIA Title I programs.

FEDERAL BUDGET PROCESS

The Federal budget process begins approximately 19 months before the beginning of the fiscal year for appropriated funds. At that time, OMB develops economic assumptions and establishes general budget and fiscal policy guidelines to be followed by Federal agencies. The OMB issues formal instructions on the budget process to agencies that include the economic assumptions, guidelines and policies, and budget ceilings. Based on these preliminary instructions and ceilings, ETA instructs the program offices to develop budget projections. In May, ETA receives formal instructions on the budget process from the DOL. The ETA then prepares, finalizes, and submits the budget request to the DOL Office of the Budget in early July. During July and August, the DOL reviews, accepts, or rejects the agency budgets and hears agency appeals. The DOL submits the DOL budget, including the ETA budget, to OMB in early September. OMB then reviews the budgets, conducts budget hearings, and works with the various Federal agencies to finalize each agency budget. ETA works with the DOL to prepare the final budget materials for the President's budget and for the Congressional committee hearings. The President's budget is submitted to Congress within 15 days after Congress convenes in January.

Between January and September, the budget is acted upon by Congress. Congressional budget committee hearings are held, and a first concurrent budget resolution is issued by April

15. Congress completes its action on the concurrent budget resolution by May 15. Congressional appropriations subcommittees hold hearings and review budget justifications. Appropriation bills, once approved, are sent to the President for approval or veto. Congress must complete action of the appropriations or spending bills by September 30 or enact a continuing resolution.

When the appropriation is approved, a warrant is drawn by the Treasury and forwarded to the Federal agencies. Ten days after the appropriation is approved, ETA submits an apportionment request to OMB. OMB makes the apportionment 30 days after approval. When the apportionment has been made by OMB, ETA allots funds to programs.

WIA ALLOTMENTS AND ALLOCATIONS

Title IB Adult, Dislocated Worker, and Youth Programs

Congress appropriates the funds for WIA Title IB programs by the funding streams for Adult, Dislocated Worker, and Youth programs. Under the Governor-Secretary Agreement, funds are authorized for expenditure through a grant agreement (and associated Notices of Obligation (NOOs)) entered into on a program year (PY) basis between the Governor (or designated representative) and the Secretary or the Grant Officer. For states, funds are available for expenditure during the PY of allotment and the two succeeding PYs. For local areas, funds are available for the year of allocation plus one succeeding year.

Of the funds allotted to a state for Adult, Dislocated Worker, and Youth activities, the state may reserve up to 15 percent of the funds for statewide activities, including 5 percent reserved for state administrative activities, and may reserve up to 25 percent of the funds available for the Dislocated Worker funding system for statewide Rapid Response activities. The remaining funds must be allocated to local areas in accordance with WIA Sections 128 and 133 and the regulations at 20 CFR 667.130. Should the Governor decide to develop a discretionary formula to allocate adult or youth funds, the State Board must assist the Governor in the development of such formulas. The formulas for allocation of Adult activities are found at 20 CFR 667.130(d). The allocation formula criteria for Dislocated Worker programs are found at 20 CFR 667.130(e). The allocation formulas for distribution of Youth activity funds are found at 20 CFR 667.130(c). Charts II-1-1 through II-1-3 at the end of this chapter show the distribution of funds for Title IB programs. Chart II-1-14 shows the periods of fund availability for WIA Title I funds.

In addition, the Governor may elect to apply the “hold-harmless” provisions of 20 CFR 667.135 in the allocation of Adult or Youth funds to local areas. No hold-harmless provisions are available for the Dislocated Worker funds allotted to the state.

The Adult and Dislocated Worker programs are authorized to transfer up to 30 percent of the PY allocation between them. The Governor must approve such transfers. No transfers of funds are authorized for the Youth program. [Appropriation language over the last several years has increased the transfer authority in the statute and regulations at 20 CFR 667.140]

Title IB funds are allotted on both a PY and fiscal year (FY) basis. PY funds are available beginning on July 1 of the PY. For example, PY 2011 funds will be available on July 1, 2011. FY funds are available on October 1 of calendar year preceding the FY. For example, FY 2012 funds are available on October 1, 2011. Title IB PY Youth funds are available on April 1 of the appropriate PY. For example, PY 2011 Youth funds are available on April 1, 2011. All funds, including Youth and FY allotments, expire on June 30, three years after the start of the PY of allotment. For example, all Title IB PY and FY 2011 funds will expire on June 30, 2014.

The Title IB Adult and Dislocated Worker programs are also subject to the recapture and reallocation of funds provisions addressed in 20 CFR 667.150. The Governor must follow the guidelines set forth at 20 CFR 667.160 in reallocating Adult, Youth, or Dislocated Worker funds among the local areas.

National Emergency Grants

From the Dislocated Worker funds appropriated by Congress, in addition to funds for allocation to the state, the Secretary has a discretionary National Reserve Account which includes funds to provide National Emergency Grants (NEG) for significant layoff events or natural disasters. NEGs are awarded by the Secretary to temporarily expand service capacity at the state and local levels through time-limited funding assistance in response to significant events that create a sudden need for assistance that cannot reasonably be expected to be accommodated within the ongoing operations of the formula-funded Dislocated Worker program, including the discretionary resources reserved at the state level. States must apply to ETA for these discretionary funds. Eligibility requirements for NEGs are found at 20 CFR 671.120.

There are a variety of types of NEGs to respond to different types of eligible events, including regular, Disaster, Trade Adjustment Assistance-Workforce Investment Act Dual Enrollment (http://www.doleta.gov/neg/taa_Dual.cfm), Health Coverage Tax Credit (http://www.doleta.gov/neg/taa_HCTC.cfm), and Base Realignment and Closure (BRAC) (<http://www.doleta.gov/neg/brac.cfm>). Application instructions and additional guidelines are provided on the DOL ETA Web site: (<http://doleta.gov/neg/>). Chart II-1-4 shows the distribution process for NEGs.

Title IC Job Corps Program

The Department of Labor awards and administers contracts for the recruiting and screening of new students, center operations, and the placement and transitional support of graduates and former enrollees. Large and small corporations and nonprofit organizations manage and operate 96 Job Corps centers under contractual agreements with DOL. These contract center operators are selected through a competitive procurement process that evaluates potential operators' technical expertise, proposed costs, past performance, and other factors, in accordance with the competition in contracting Act and the Federal Acquisition Regulations. The U. S. Department of Agriculture, through an Interagency Agreement with DOL, operates 28 Job Corps centers on public sites throughout the country. The program currently operates 124 centers, both residential and non-residential, in 48 states, the District of Columbia and the Commonwealth of Puerto Rico. The Construction, Rehabilitation, and Acquisition (CRA)

funding is used to acquire land and construct new centers; rehabilitate current facilities; modernize classroom and training buildings; repair and upgrade deficiencies; address life, safety, and health concerns; and complete emergency repairs. The regulations at 20 CFR 667.105(e) provide the requirements for Job Corps fund distribution. Chart II-1-5 also provides a flow chart detailing the distribution of funds.

Title ID Indian and Native American (INA) Program

The provisions of the INA program that address eligibility for funds are found at 20 CFR 667.105(c) and 20 CFR Part 668, Subpart B. These provide that funds are awarded on a competitive basis for a two-year period. A succeeding two-year period may be awarded to the same recipient on a noncompetitive basis if the conditions at 20 CFR 667.105(c)(i-ii) are met. To compete for awards, prospective grantees must meet the requirements of 20 CFR 668.200 for attaining designation as an INA grantee. Entities potentially eligible for designation are Federally recognized Indian tribes, tribal organizations as defined in 25 United States Code (U.S.C.) 450b, Alaska native-controlled organizations (“native” is defined in the Alaska Native Claims Settlement Act), Native Hawaiian-controlled entities, Native American-controlled organizations serving Indians, and consortia of eligible entities. The regulations contain provisions for prioritizing designations, determining an eligible organization’s ability to administer the funds, and termination and appeal rights related to designation.

Of the funds appropriated for INA activities, ETA may reserve up to one percent for technical assistance and training activities. The remaining funds are allocated to INA-designated grantees utilizing the formula found at 20 CFR 668.296(b).

Supplemental youth services funding is allocated to INA-designated grantees utilizing the formula contained in 20 CFR 668.440(a). Hold-harmless and reallocation provisions are also contained in 20 CFR 668.440. Chart II-1-6 shows the fund distribution for INA programs.

Title ID National Farmworker Jobs Program

Awards for the National Farmworker Jobs program (NFJP) are allocated to eligible entities on a competitive basis every two years for a two-year period [20 CFR 667.105(d)] and may be renewed for the succeeding two-year period if the conditions at 20 CFR 667.105(d)(i-ii) are met. Eligible entities are defined in the regulations at 20 CFR 669.200(a). Eligible entities must have an understanding of the problems faced by program eligible farmworkers and their dependents and a familiarity with local agricultural industry and labor market needs. They must also demonstrate the capacity to administer the program and have the capacity to work effectively as a One-Stop partner.

Of the funds appropriated for NFJP activities, up to six percent may be reserved for discretionary purposes, including grantee technical assistance and farmworker housing activities. The remaining 94 percent must be allocated to state service areas under a formula published in the *Federal Register*. The competitive grants are awarded for services within the state service area. The program helps farmworkers acquire new job skills in occupations that offer higher wages and a more stable employment outlook. In addition to skills training, the program provides

supportive services that help farmworkers stabilize their employment in agriculture. Chart II-1-7 shows the fund distribution for the NFJP.

Title ID YouthBuild Program

YouthBuild provides job training and educational opportunities for at-risk, and out-of-school youth ages 16 through 24 while constructing or rehabilitating affordable housing for low-income or homeless families in poor communities. While enrolled in a YouthBuild program, participants split their time between a construction site and a classroom, where they earn their GED or high school diploma, learn to be community leaders, and prepare for college and other postsecondary training opportunities.

The YouthBuild Transfer Act of September 2006 transferred the YouthBuild program from the Department of Housing and Urban Development (HUD) to DOL and amended the Workforce Investment Act by adding a new section 173(A) to subtitle D of Title I. Proposed rules were published in the Federal Register on August 27, 2010, as 20 CFR Part 672. YouthBuild funds are awarded through a competitive process by issuance of an SGA. The SGA identifies entities that are eligible to apply for the awards which include public or private non-profit agencies or organizations (including a consortium of such agencies or organizations with a designated lead applicant). The grants are awarded for a three year period, two for program operation and nine to twelve months of follow-up services to participants. Eligible entities must demonstrate that they have established partnerships with—or made a good faith effort to establish partnerships with—Local Workforce Investment Boards, the public school system, local community colleges, the juvenile justice system, registered apprenticeship programs, disability and mental health organizations, local faith-based and community organizations that serve at risk and disadvantaged youth, and/or the local housing authority. Chart II-1-8 displays the YouthBuild fund distribution.

NON-WIA ALLOTMENTS AND ALLOCATIONS

Employment Services

Funds are allocated to states for Employment Services utilizing the statutory funding formulas contained in Section 6 of the Wagner-Peyser Act, as amended. States are presented with preliminary and final planning estimates based on historical data. The National Reserve funds contain funds for employment activities conducted by the Territories, and a three-percent reserve required by law. The remaining funds are allocated using the formula factors described in the Wagner-Peyser Act. States may also receive funds from the three-percent reserve if they meet certain criteria. Additional information on Employment Services allotments may be found on the ETA Budget Web site. Chart II-1-9 displays Employment Services fund distribution.

Unemployment Insurance Programs

Unemployment Compensation administrative funds are issued to the states for the costs of processing unemployment claims, collecting unemployment taxes, and all of the necessary

related activities. State funding is based on the cost of proper and efficient administration and such other factors as the Secretary of Labor deems appropriate, including any adjustments necessary to fit the level of appropriated funds.

The administrative funds are allocated annually for base level operations and on a quarterly basis for above-base level operations. In addition, states may receive contingency funding to meet unanticipated workloads if the average weekly insured unemployment level exceeds the level contained in the annual appropriation. Funding for certain types of administrative costs not included in base and above-base allocations can be requested through supplemental budget requests (SBRs). Additional information on UI allocations may be found on ETA's Budget Web site. Chart II-1-10 displays UI fund distribution.

Senior Community Service Employment Program for Older Americans

Funds are allotted for the Senior Community Service Employment program (SCSEP) for older workers, based on the statutory funding formula contained in the Older Americans Act, Title V, Section 506. This program was established for low income persons age 55 or older to increase workers' incomes and narrow wage and income inequality among senior workers. Of the funds available for grants to states and nonprofit "National grantees," 78 percent are allotted to the National grantees and 22 percent are allotted to the states. In addition, Section 507 requires that the amounts allotted to the states and National grantees serving each state must be equitably distributed among the states and within each state, based on need and on state priorities indicated in the State plans. The ETA Budget Web site provides additional information on the funding formula for the SCSEP. Chart II-1-11 displays the SCSEP fund distribution.

Trade Adjustment Assistance (TAA)

Funds for TAA training services are made available to states through the Cooperating State Agency identified in the agreement between the Governor of the state and the Secretary of Labor. TAA was reauthorized and amended by the Trade Globalization Adjustment Assistance Act which was part of the American Recovery and Reinvestment Act (Recovery Act) of 2009. These amendments expired on February 15, 2011, and TAA reverted to the amended Trade Act of 2002. The amendments to Sec 236(a)(2)(B) and (C) set out new requirements for distribution of TAA training funds. A reserve of 35 percent of the training funds is set aside and the remaining 65 percent is distributed to states by formula that includes a hold harmless of 25 percent of the prior year initial allocation. This provision was also enacted in regulation at 20 CFR § 618. When states have expended 50 percent of their available training funds or if they need more funds to meet unusual and unexpected events, they may request additional funds from the reserve based on their estimated funds needed through the end of the fiscal year. Additionally, ETA may recapture any funds distributed to any state in the same fiscal year as they were given if it determines that the state will not expend the funds. States must request funds, using form ETA-9117, for Job Search and Relocation Allowances for adversely affected workers who have no reasonable expectation of obtaining suitable employment in the local commuting area. States will also receive an allocation of Administration funds equal to 15 percent of the funds obligated by ETA. Trade Readjustment Allowance (TRA) benefits are supplemental unemployment compensation for eligible claimants who have exhausted regular UI

benefits. Funds are requested in the same manner as supplemental UI benefit requests. Chart II-1-12 displays fund distribution for the TAA program.

Trade Adjustment Assistance Community College and Career Training Program (TAACCCT)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) amended the Trade Act to authorize the Trade Adjustment Assistance Community College and Career Training Grant Program (TAACCCT). The Health Care and Education Reconciliation Act of 2010 included \$2 billion over four years to fund this program. Grants will be administered by ETA working closely with the Department of Education. By statute, the program is designed to ensure that every state, through its eligible institutions of higher education, will receive at least \$2.5 million in grant awards. “State” includes the District of Columbia and the Commonwealth of Puerto Rico. These grants will be awarded competitively by a Solicitation for Grant Applications (SGA). Eligible entities are institutions of higher education as defined in the Higher Education Act of 1965, which offer programs that can be completed in not more than 2 years. Eligible institutions may apply as an individual institution, or as the lead institution in a consortium of eligible institutions. The grants will be for a period of up to 36 months. Chart II-1-13 displays the fund distribution process for TAACCCT.

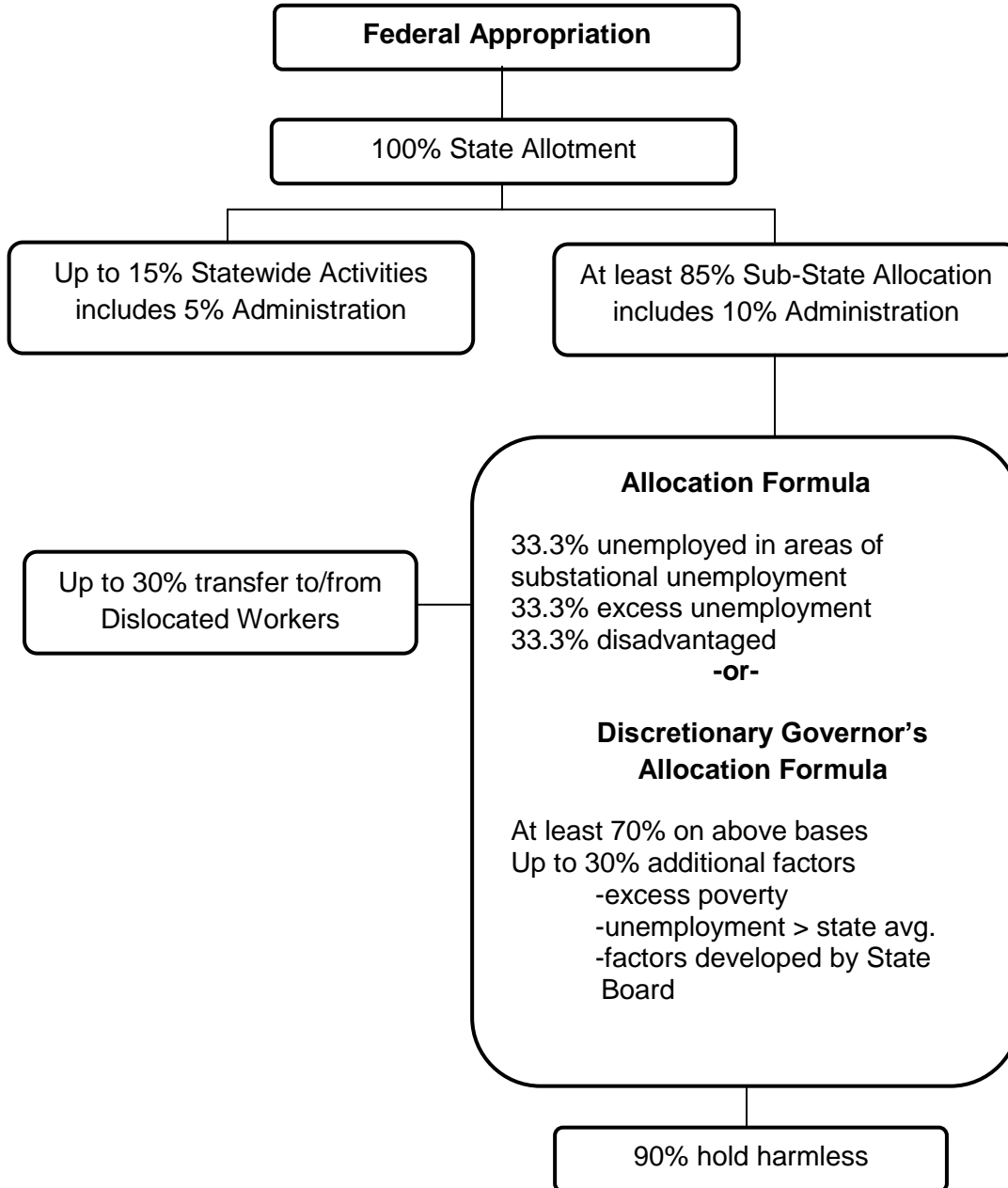
DISCRETIONARY GRANT FUNDING

Each fiscal year’s appropriation for ETA includes funds for a variety of non-formula programs, which are generally awarded through a competitive process. This process is initiated with the development and publication in the Federal Register and on grants.gov of an SGA, which includes the information needed by potential applicants to prepare and submit their proposals for these grants. Each SGA will provide a programmatic description of the funding opportunity, available funding, information about the types of organizations that are eligible to apply, all details and instructions for submission of applications, criteria for evaluation, special grant conditions or limitations and reporting requirements, and agency contact information. Funding sources for these competitive grants may be from WIA or other appropriated funds. Some examples of these discretionary grants have been described above. Other recent initiatives include **Enhanced Transitional Jobs Demonstration (ETJD)** to support successful applicants in providing enhanced transitional jobs (ETJ) programs, as well as other activities and services, to increase the workforce participation of low-income, hard-to-employ populations, specifically non-custodial parents and/or ex-offenders reentering their communities; **Career Pathways Innovation Fund Grants Program** to continue DOL’s support for community colleges, with a particular focus on career pathway programs implemented by community colleges in partnership with other organizations in the community, **Serving Juvenile Offenders in High-Poverty, High-Crime Communities** to organizations with the capacity to implement multi-site, multi-state projects to serve juvenile offenders, ages 16 to 24, in high-poverty, high-crime communities to improve the long-term labor market prospects of these youth; **Green Jobs Innovation Fund (GJIF)** grants to increase the number of individuals completing training programs who receive industry-recognized credentials and to increase the number of individuals completing training programs for employment in green jobs; **Reintegration of Ex-Offenders** to provide pre-release and post-release services to ex-offenders returning to high poverty, high-crime communities, **and**

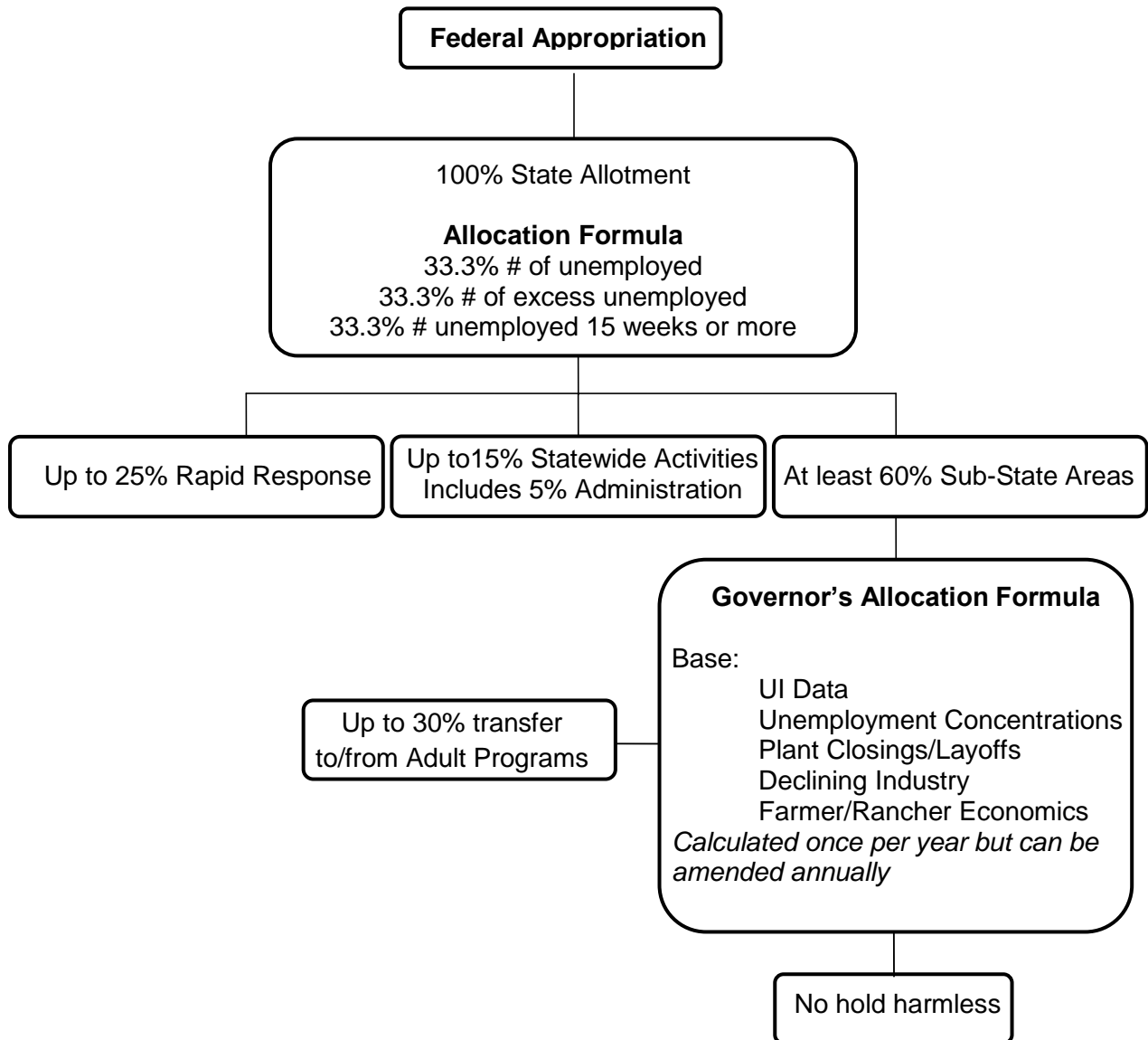
Civic Justice Corps to serve juvenile offenders ages 18 to 24 who have been involved with the juvenile justice system within 12 months before entry into the program to provide these young offenders the opportunity to give something back to their communities by improving their vocational and educational skills and long-term prospects in the labor market and by increasing their attachment to their community and their sense of community responsibility.

The panels which review and evaluate the submissions in response to the solicitations include a diverse pool of expertise from the workforce system, institutions of higher education, community and faith-based organizations, labor, business and industry partners, and other related organizations along with Federal staff. The panel provides reports to the Grant Officer who makes final decisions on awards.

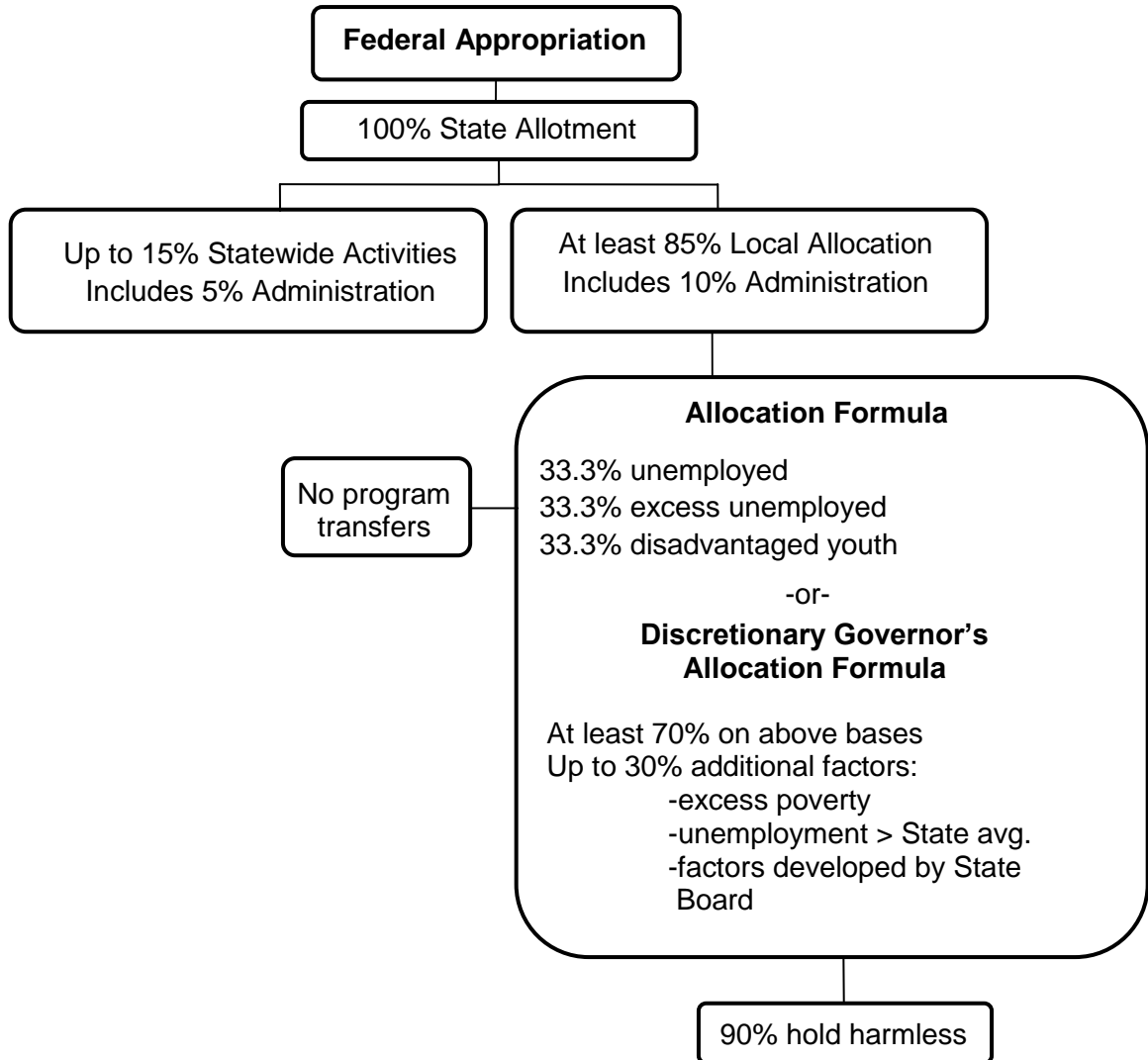
Formula Fund Distribution WIA Title IB – Adult



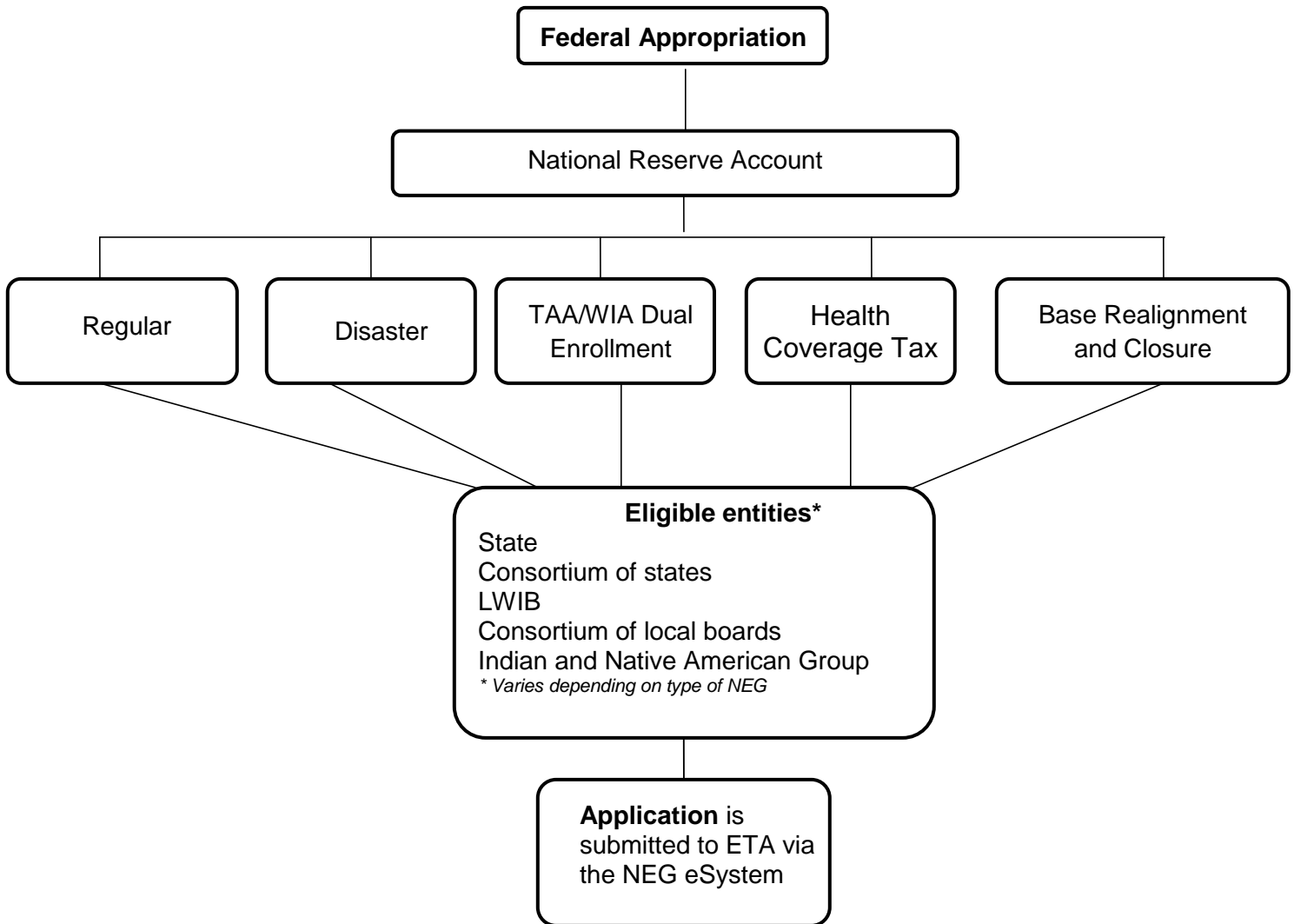
Formula Fund Distribution WIA Title IB – Dislocated Worker



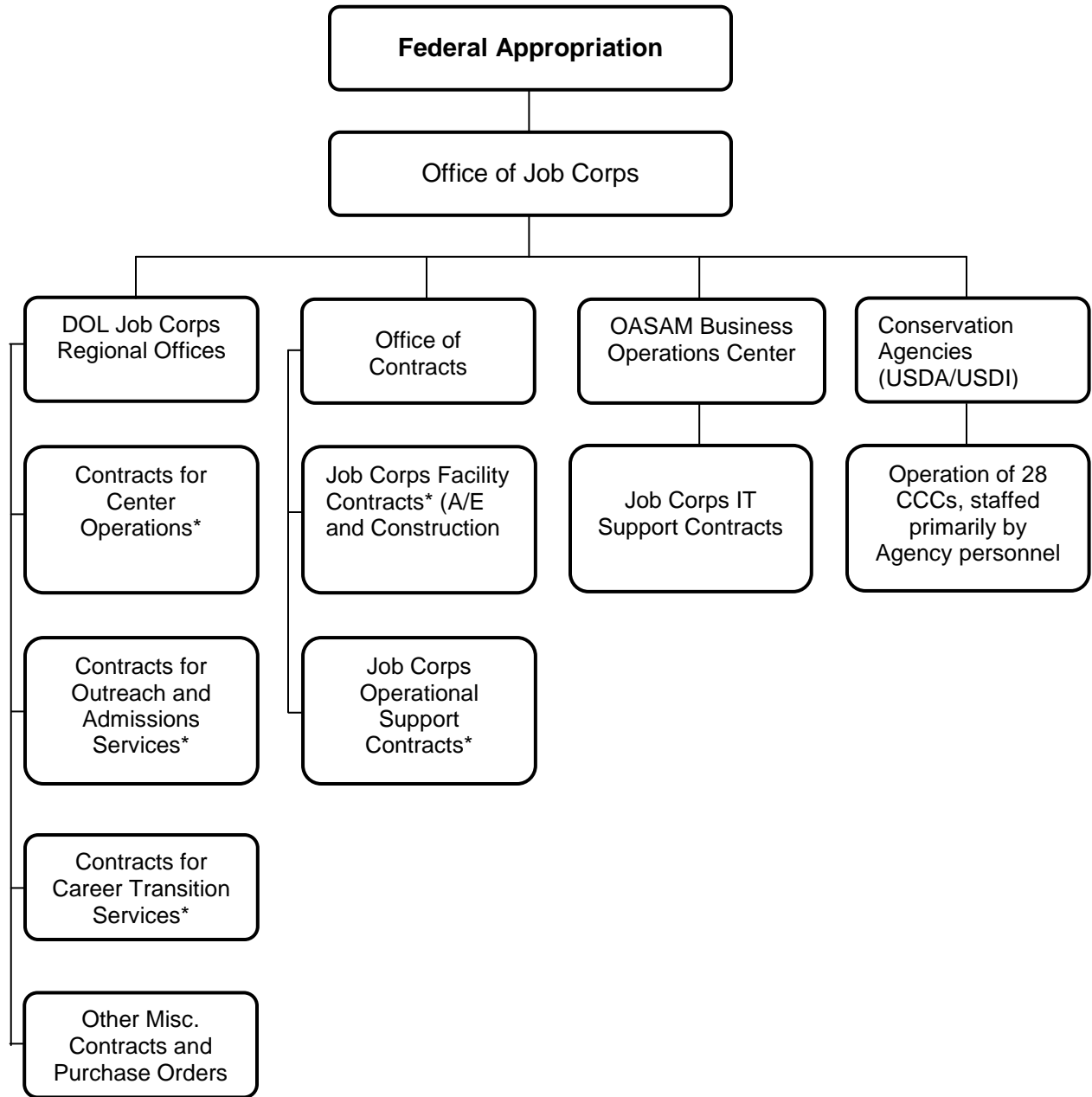
Formula Fund Distribution WIA Title IB – Youth



Formula Fund Distribution WIA Title IB – NEG

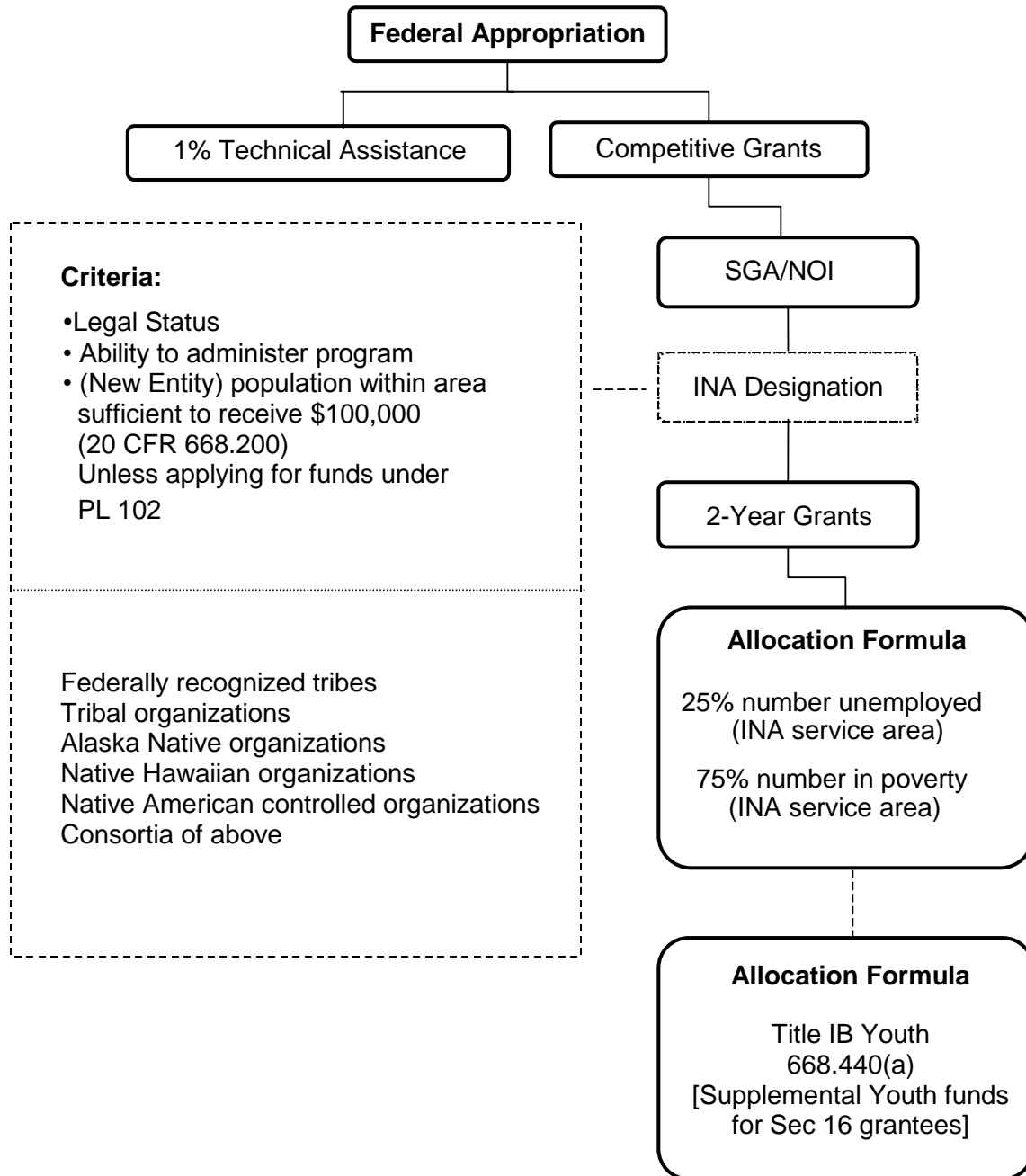


Fund Distribution WIA Title IC – Job Corps

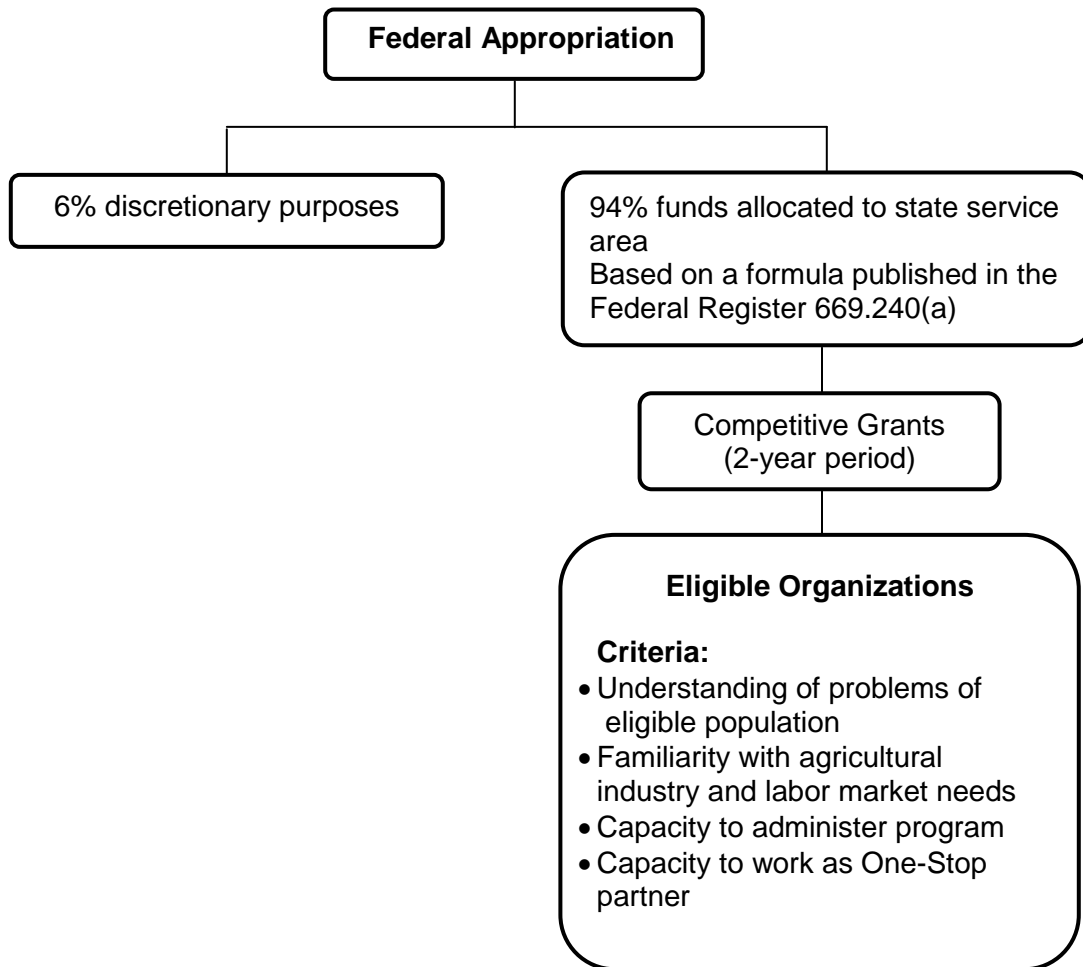


**With isolated exceptions, these contracts are issued on a competitive basis.*

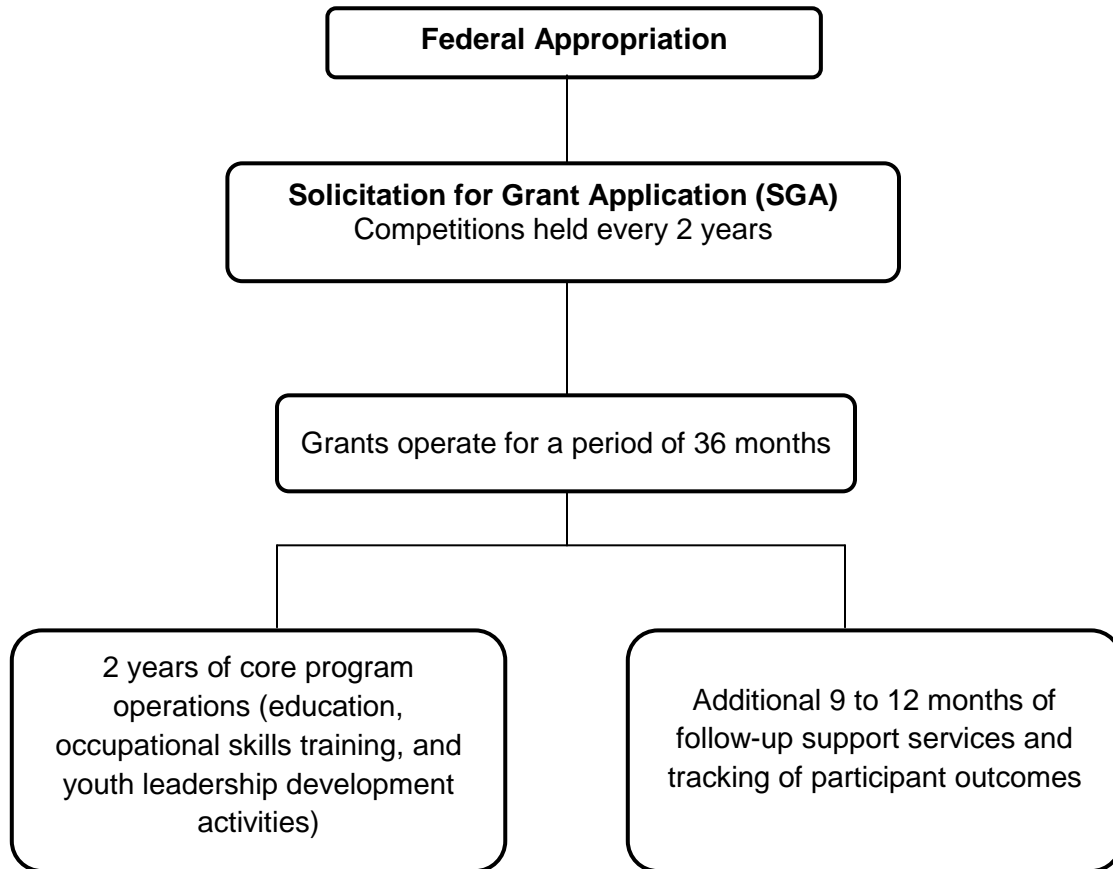
Fund Distribution WIA Title ID – Native American Programs



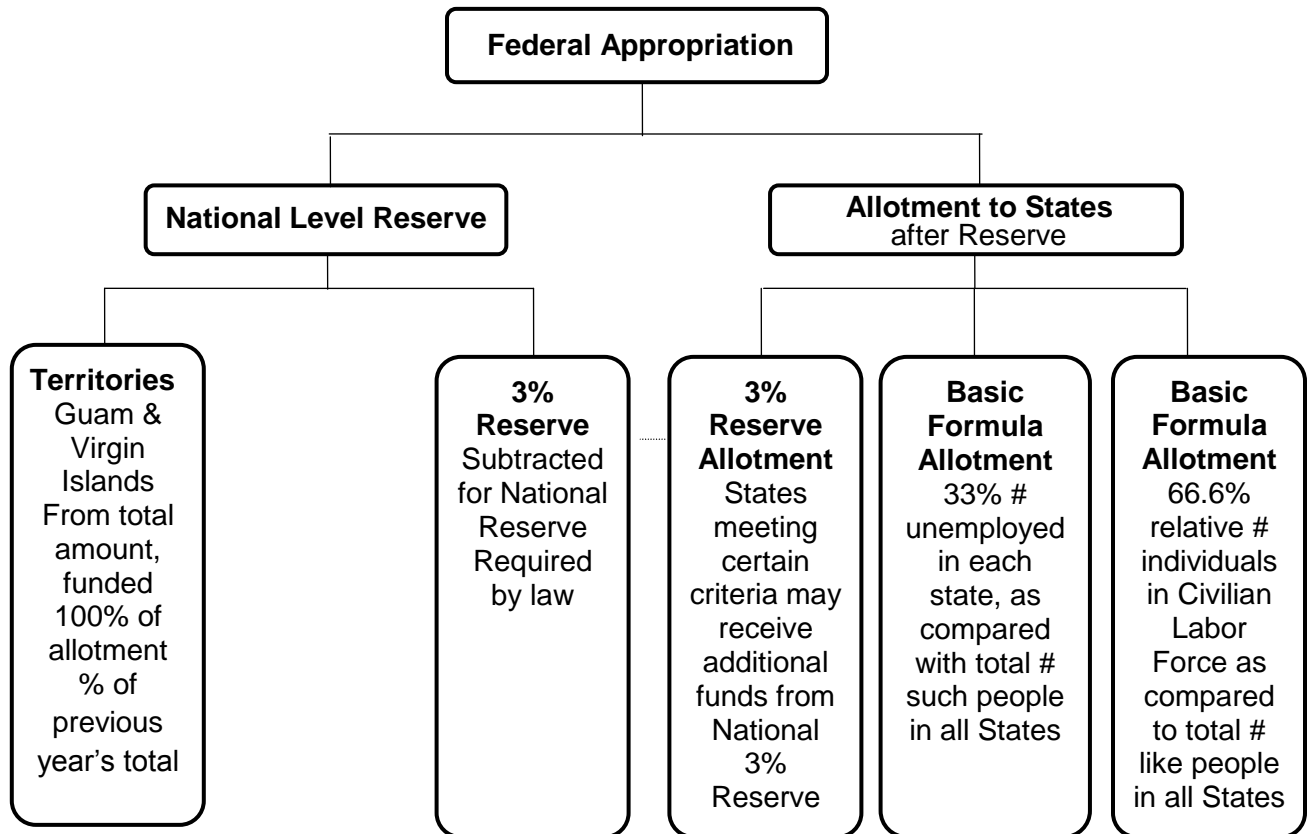
Fund Distribution WIA Title ID – National Farmworker Jobs Program



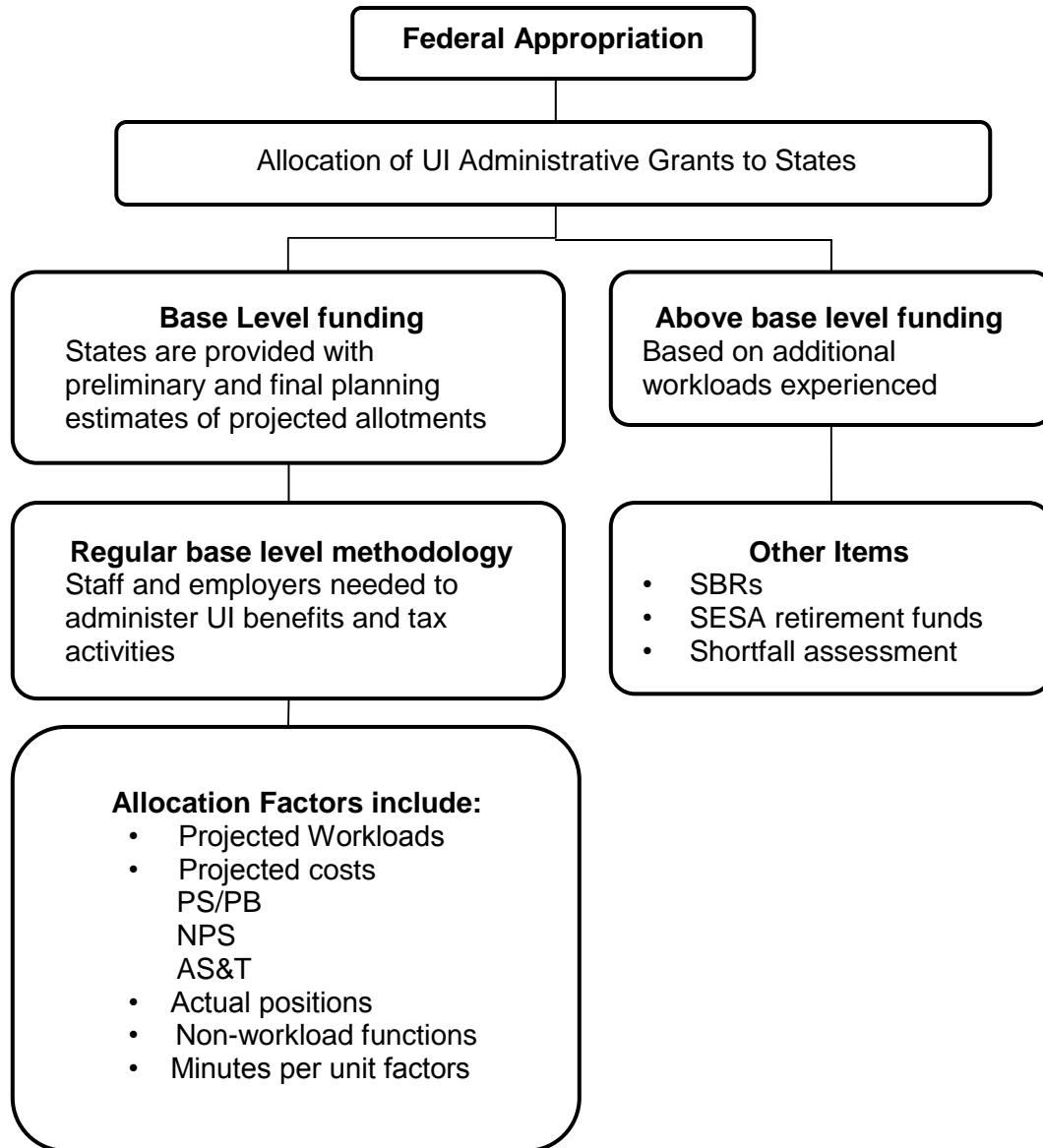
Fund Distribution WIA Title ID – YouthBuild



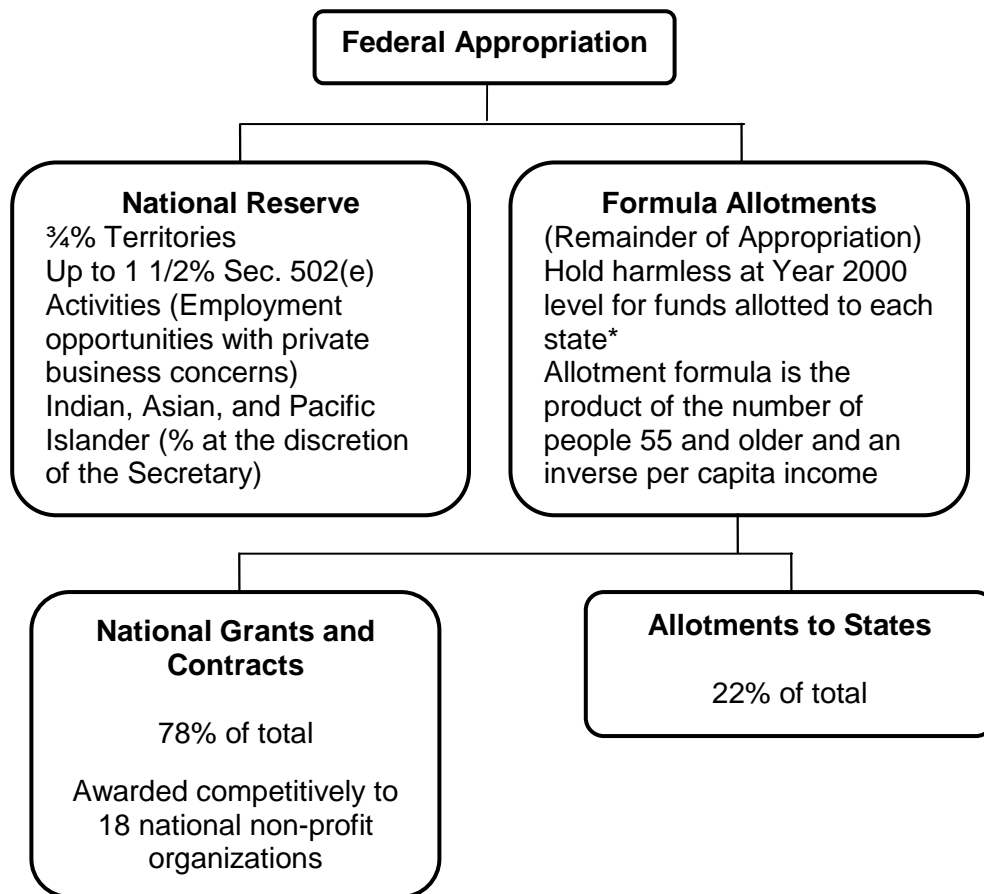
Fund Distribution Employment Services



Fund Distribution Unemployment Insurance

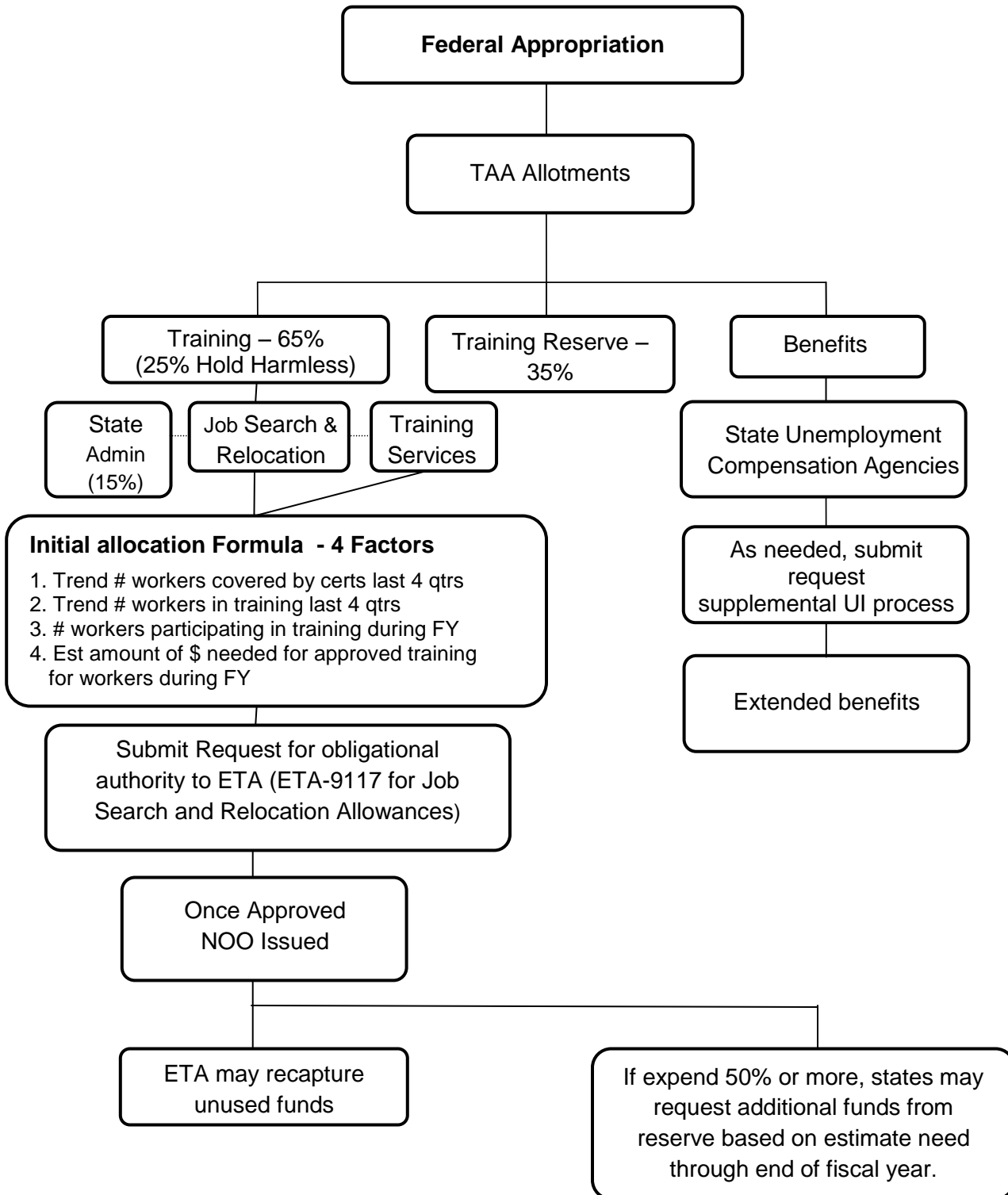


Fund Distribution Senior Community Service Employment Program

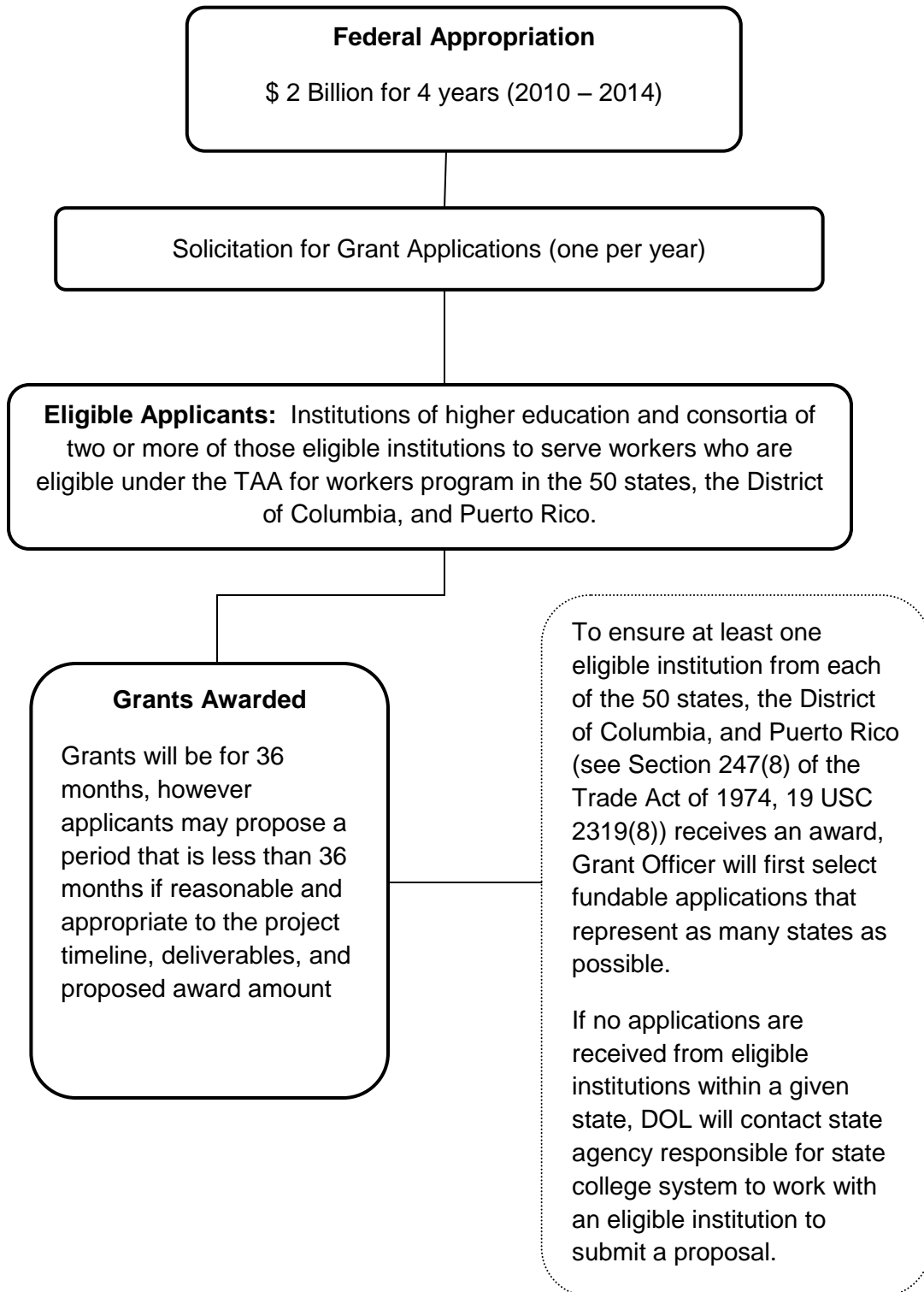


**The relative amounts allotted to States and National Grantees changes if amount appropriated exceeds Year 2000 hold harmless level.*

Fund Distribution Trade Adjustment Assistance



Fund Distribution TAA-CCCT



**Workforce Investment Act of 1998
Period of Fund Availability**

	Year 1	Year 2	Year 3	Year 4	Year 5
Local (LWIA)					
States					
Demos, pilots, multi-service, research, & multi-States projects		Specified	in Grant	Award*	
Native American Programs					
Migrant & Seasonal Farmworkers Programs					

Funds will be made available beginning on: July 1 for Adult & Dislocated Workers Programs
April 1 for the Youth Program

**An appropriation is available for a maximum of five years from the beginning of the program year or fiscal year, as applicable. Funds obligated under the WIA, Sections 171 and 172, are available until expended.*

Chapter II-2

Financial Management Systems

INTRODUCTION

The administrative rules applicable to the use and protection of ETA grant funds are found in DOL regulations for the management of grant funds at 29 CFR Part 97 and 29 CFR Part 95. The rules applicable to state, local, and Indian tribal governments are contained in 29 CFR Part 97, and 29 CFR Part 95 contains the rules applicable to institutions of higher education and other nonprofit organizations. The DOL has also extended the rules in Part 95 to commercial organizations that function as either recipients or subrecipients of ETA grant funds. In addition to specific rules on property management, payments, reporting, and a number of other grant management topics, both Parts 97 and 95 lay the framework for grant management through the definition and description of a system that properly accounts for and manages grant funds.

This chapter contains the following sections:

- Regulations and Requirements
- Financial Management System Standards.

REGULATIONS AND REQUIREMENTS

The requirements for the administrative and financial management systems applicable to governmental entities are specified in 29 CFR Part 97. Under the section titled *Standards for Financial Management Systems*, 29 CFR 97.20(a) specifies the requirements for administrative and financial management systems for states, and 97.20(b) contains the requirements for local governments, Federally recognized Indian tribes, and subgrantees.

The requirements for administrative and financial management systems applicable to institutions of higher education, hospitals, other nonprofit organizations, and commercial or for-profit organizations that function as subrecipients or recipients of ETA grant funds are specified in 29 CFR 95.21.

The requirements for both governmental and nongovernmental organizations are substantially the same, with the exception of states. For states, adherence to the requirements of 29 CFR 97.20(a) will mean that each state must expend and account for grants in accordance with the state laws and procedures for expending and accounting for its own funds as long as state procedures do not conflict with the WIA or other Acts, grant requirements, or DOL regulations. Where state procedures are in conflict, such conflict must be resolved in favor of the Federal requirements.

FINANCIAL MANAGEMENT SYSTEM STANDARDS

Both 29 CFR 97.20(b) and 95.21(b) establish a set of standards that must be included in the financial management systems of grantees and subgrantees. Each of these seven standards is discussed below:

- **Financial Reporting.** Accurate, current, and complete disclosure of the financial results of ETA grant activities must be made in accordance with ETA grant reporting requirements. This means that the allowable costs reported to the Federal funding source must be traceable to accounting records. In addition, all allowable costs and activities must be reported, and the reports must be submitted in the format specified by the ETA. For all ETA programs, the required report is the quarterly Financial Report (ETA 9130). Individual program forms contain program specific data elements that are required by program legislation. ETA requires reports to be made on an accrual basis. A further discussion of reporting requirements is found in Chapter II-9, *Financial Reporting*.
- **Accounting Records.** All grantees must keep records that adequately identify ETA grant funds. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be maintained in accordance with Generally Accepted Accounting Principles (GAAP). Grantees and subgrantees may use either the cash or the accrual method of accounting; however, expenditures must be reported to the ETA on an accrual basis. If the records are maintained on a cash basis, the grantee or subgrantee must maintain a set of linking records, typically accrual spreadsheets, so that the reported costs are traceable during monitoring or auditing to the official accounting records or books of account.
- **Internal Control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Internal controls are designed to provide safeguards for Federal funds. For example, payments may not be authorized solely by an employee who also has the authority to sign checks. Internal controls for property often are inherent in the inventory system that tracks purchases and locations or use of property procured with grant funds. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized ETA grant activities, including shared One-Stop activities.
- **Budget Control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. This is often referred to as a “planned vs. actual” analysis. The results of such analysis are used to preclude overspending and/or to modify contracts and grant agreements. For non-formula grants, the information is also used to ensure compliance with the budget line item flexibility provision specified in the grant terms and conditions. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. This information should be used in developing plans and monitoring. A further discussion of budgets as they relate to the shared costs of One-Stop operations is found in Chapter I-2, *Shared Costs Budgets*.

- **Allowable Costs.** Applicable OMB cost principles, ETA grant regulations, and the terms of the grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs. Only allowable costs may be charged to an ETA-funded grant, and no grant may pay for more than its fair share of the costs (allocability). This means that the grantee must determine what costs incurred by the organization are allowable, following the guidelines specified above. A more detailed discussion of allowable costs is found in Chapters II-3, *Cost Principles*, and II-4, *Allowable Costs*.
- **Source Documentation.** Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, contract and subgrant award documents, tax records, etc. Source documentation is the proof that costs reported to the granting agency are, in fact, allowable and allocable to the grant. This source documentation must be available for review by awarding agency representatives and auditors and directly relate to the costs claimed on financial reports.
- **Cash Management.** Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. When advances are made by Payment Management System (PMS)/electronic transfer of funds (ETF) methods, the grantee must forecast cash needs to ensure that cash is received as close as possible to the time of actual disbursement. Grantees must also monitor the cash received by their subgrantees to minimize cash on hand. In addition, they must ensure that the subgrantees' cash management procedures conform substantially to the same standards of timing and amount that apply to the awarding entity. A further discussion of the cash management requirements is found in Chapter II-6, *Cash Management*.

In addition, 29 CFR 95.21(a) requires that all nongovernmental recipients relate the financial results of the program to program performance information and develop unit cost data "whenever practicable." In practical terms, this requirement specifies that grantees compare the costs associated with the program to the results achieved by that program. A simple example of this would be to divide the costs of a job placement contract by the number of placements, resulting in a "cost per placement."

An awarding entity may review the adequacy of the administrative and financial management system of any grantee/subgrantee/competitive grantee/cost contractor as part of a pre-award review or at any time subsequent to award. At a minimum, these systems will be reviewed as part of the required annual audit of the organization. Processes and procedures should be documented through the development of manuals or policy directives that clearly state exactly how the grantee/subgrantee/cost contractor will adhere to these requirements. The adequacy of the systems may impact on future funding or result in the imposition of corrective action plans. The standards contained in this chapter form the basis for the overall financial management of ETA grant funds. Many of the subsequent chapters of this TAG are designed to provide ETA grant operators with practical guidance on methods for developing adequate systems and complying with these Federal financial management requirements.

Chapter II-3

Cost Principles

INTRODUCTION

This chapter provides guidance to ETA-funded grantees and subgrantees on Federal cost principles that define when and how costs can be charged to grants. The material in this chapter also forms the basis for the discussion of allowable and unallowable costs found in Chapter II-4, *Allowable Costs*.

For each of the programs addressed in this TAG, the authorizing legislation provides guidance on the types of program activities that are authorized. Grantees of ETA-funded programs are generally provided wide latitude in designing programs that meet the needs of their local workforce area and comply with the requirements of the legislation and regulations.

Cost principles for various entities are now codified in the Code of Federal Regulations (CFR). They are at: 2 CFR Part 220, *Cost Principles for Educational Institutions* (OMB Circular A-21); 2 CFR Part 225, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87); 2 CFR Part 230, *Cost Principles for Non-Profit Organizations* (OMB Circular A-122); and 48 CFR Part 31, *Contract Cost Principles and Procedures (used for commercial organizations)*. The above mentioned CFR citations will be from this point referred to as the cost principles. These documents can be downloaded in their entirety from the CFR Web site, and each grantee should have a copy of its applicable circular for ready reference. A listing of Web site addresses is provided in Appendix C. The cost principles are incorporated by reference at 29 CFR 95.27 and 29 CFR 97.22 and are further specified in program regulations. Further guidance on allowable costs can be found in: the Department of Health and Human Services' ASMB-C-10, *Implementation Guide for OMB Circular A-87*, the Department of Labor's Division of Cost Determination' *A Guide for Indirect Cost Determination Based on the Cost Principles and Procedures Required by OMB Circular A-122 (2 CFR Part 230) for Non-profit Organizations*, and by the *Federal Acquisition Regulation - Part 31.2*.

Guidance provided in this chapter on the subject of allowable costs should in no way detract from the critical importance of continually referring to the cost principles on all questions of cost allowability and of the importance of being familiar with the DOL and ETA grant regulations. Even though the cost principles do not address every possible cost, they are the groundwork for all grant financial management, and grantees should rely on their guidance to avoid audit findings and potential liability. An extensive familiarity with cost principles, coupled with a knowledge of the provisions and certifications contained in the actual grant agreement, will help grantees avoid possible audit discrepancies and will help to ensure that their ETA grant programs have the maximum impact on their communities.

FEDERAL COST PRINCIPLES

The following general principles found in the cost principles must be used in determining cost allowability for ETA grants. Total allowable costs are composed of allowable direct costs and the allocable portion of indirect costs, less applicable credits.

- **Costs must be necessary and reasonable.** Any cost charged to an ETA grant must be “necessary and reasonable for the proper and efficient performance and administration of the grant.” [2 CFR Appendix A to Part 225] A grantee is required to exercise sound business practices and to comply with its procedures for charging costs. A grantee is expected to exercise the same prudence with Federal funds as an individual would with his or her own funds, asking the following questions: Do the costs incurred for administering the ETA grant appear reasonable when compared with costs incurred by the grantee for administering other Federal grant programs or non-Federal programs? Did the grantee solicit price quotations in order to compare costs?
- **Costs must be allocable.** A grantee may charge costs to the grant if those costs are clearly identifiable as benefiting the ETA grant program. Costs charged to the ETA grant should benefit only the ETA grant program, not other programs or activities. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being charged. Shared costs must benefit both the ETA grant and other work and be distributed in reasonable proportion to the benefits received. They must also be necessary to the overall operation of the organization although the direct relationship to a final cost objective (ETA grant program) cannot be shown. If a grantee conducts other programs in addition to the authorized ETA grant, allocation methods should be used to determine what share of costs should be charged to the ETA grant. A common cost issue often arises regarding salary and time charged to a grant for personnel compensation. A grantee can allocate to the ETA grant only the portion of time that a person spends supporting the implementation of ETA grant allowable activities. One-Stop operations present other allocation issues that have previously been addressed in Chapter I-3, *Proportionate Share and Cost Allocation*. Further, if the grantee or subgrantee operates more than one ETA-funded grant, cost must be allocated to each funding stream based on proper allocation methods. Finally, as with direct costs, allocated costs may not be shifted to other Federal awards.
- **Costs must be authorized or not prohibited under Federal, state, or local laws or regulations.** Costs incurred should not be prohibited by any Federal, state, or local laws. For example, entertainment and alcoholic beverages are prohibited from being charged to any Federal grant program. With respect to the ETA grant programs, the specific program regulations contain several notable prohibitions. For example, 20 CFR 667.264(a)(2) prohibits spending WIA funds on public service employment activities except to provide authorized disaster relief. The costs associated with public service employment under WIA are, therefore, allowable only when part of a disaster relief project.
- **Costs must receive consistent treatment by a grantee.** A grantee must treat a cost uniformly across program elements or from year to year. Costs that are indirect for some

programs cannot be considered direct ETA grant costs. A cost may not be charged to the ETA grant as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another grant as an indirect cost. Chapter II-8, *Cost Allocation and Cost Pooling*, contains additional guidance on cost consistency.

- **Costs must not be used to meet matching or cost-sharing requirements.** A grantee may not use Federally funded costs, whether direct or indirect, as match or to meet matching fund requirements unless specifically authorized by law. For ETA-funded programs, this restriction applies mainly to the SCSEP and YouthBuild programs that require match; the grant funds may not be used to match other Federal grant programs. While rare, an example of an authorized exception to this requirement is the Access to Jobs program funded by the U.S. Department of Transportation (DOT). This program specifically authorized the use of Welfare to Work grant funds as match for the DOT program.
- **Costs must be adequately documented.** A grantee must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies and adequate time records for those employees who charge time against an ETA grant.
- **Costs must conform to ETA grant exclusions and limitations.** A grantee or subgrantee may not charge a cost to the ETA grant that is unallowable per the ETA grant regulations or the cost limitations specified in the regulations. An example of this requirement is found at 20 CFR 667.210(a)(1), which specifies that a state formula grantee may only expend five percent of the amounts allotted under Sections 127(b)(1), 132(b)(1), and 132(b)(2) of the WIA for statewide administrative costs.

Commercial Organizations: What are the Guidelines?

As previously noted, commercial for-profit organizations may act as either a direct ETA grantee or more likely as a subrecipient to an ETA grant formula or competitive grantee. In those instances they are governed by the requirements found in the FAR, 48 CFR Part 31. Key differences between nonprofits, governmental organizations, and commercial organizations include the following:

- Unless the commercial organization does extensive business with either the Federal or state government, it is likely to recover indirect costs as a part of the cost of its service or product.
- Payment typically is made following performance of the service (as in a fixed-price contract) or on an interim basis, if appropriate.

Chapter II-4

Allowable Costs

INTRODUCTION

This chapter provides general guidance on defining allowable costs, discusses the criteria and conditions such as prior approval, and discusses specific types of costs that have been addressed either in the cost principles or in authorizing regulations, or grant agreements. It contains the following sections:

- Cost Principles: Allowable vs. Unallowable
- Selected Items of Cost
- Specific WIA Requirements
- Other Program Regulations and Grant Agreement Terms
- Attachment II-4-1—Summary of Cost Items.

Additionally, a discussion of match and leveraged resources can be found in Appendix F.

COST PRINCIPLES: ALLOWABLE VS. UNALLOWABLE

The criteria contained in the cost principles provide the basic guidance on determining whether costs are allowable in the ETA-funded programs covered by this TAG. It is important that grantees be aware that the cost principles are designed to offer guidance on determining allowability of costs and should be used as the first source of reference. It is possible that the cost principles may not make mention of an item, but that does not necessarily dictate that such a cost would be automatically allowed or prohibited. The cost should be treated consistently with the standards provided for similar or related costs. If a cost is not specifically treated within the applicable cost principles or regulations governing allowable costs (e.g., Appendix B to 2 CFR Part 225), then the general cost principles of the applicable circular or regulations are used to determine whether the cost is allowable. The cost principles are discussed in detail in Chapter II-3, *Cost Principles*.

It is important for all grantees to be familiar with the applicable cost principles, the appropriate ETA program regulations and grant agreement terms for the ETA grants that they have been awarded. Costs may be allowable per cost principles, allowable per the cost principles but with conditions, or allowable per cost principles but unallowable per the ETA regulations or grant agreement. Similarly, some costs are allowable but only with prior approval of either the Grant Officer (for non-formula direct grantees), or the Governor, or her/his designee (for formula grantees). The following examples attempt to delineate commonly incurred costs as they would apply to a particular type of grantee or subgrantees, state or local government, nonprofit

organization, institution of higher education, or commercial organization. The discussion in this chapter focuses mainly on direct costs, not indirect costs. A discussion of indirect costs takes place in Chapter II-8, *Cost Allocation and Cost Pooling*.

- **Travel.** Reasonable travel costs necessary to effectively manage the grant, provide oversight, and measure program effectiveness are allowable. Air travel, when necessary, should be obtained at the lowest possible customary standard (coach or equivalent fare). All cost principles treat these costs as allowable.
- **Training.** An ETA-funded grantee’s professional development and training costs are allowable. Under WIA, these are also called “capacity building” costs. Consistent with the “necessary and reasonable” provision, grantees should ensure that training is relevant to the specific ETA-funded program or results in increasing the effectiveness of staff working on an ETA-funded program.
- **General Government Expenses.** Grantees should take great care to avoid charging general government expenses to an ETA-funded grant. The costs of chief executives, legislatures (including city and county councils), judiciary and prosecutors, and public safety (fire and police) are unallowable unless provided otherwise in the grant. These costs are specifically treated in 2 CFR Part 225.
- **Public Outreach and Advertising.** Grantees should be very familiar with how their applicable cost principles treat these costs. Costs associated with public outreach, community relations, or efforts to publicize the ETA-funded program(s) in order to generate participation are viewed by the cost principles as allowable within certain limitations. However, any public relations costs that solely promote the organization, or are not directly related to the ETA program providing the funding, are considered unallowable. The cost principles also contain specific requirements and prohibitions related to the use of advertising and advertising media. Determining the appropriateness of the cost and allowability for programs would also be a key requirement for One-Stop operations. The cost principles are quite specific on the conditions under which public relations costs are allowable, and partner programs may have other restrictions in their particular authorizing legislation or regulations.
- **Interest.** Grantees should be familiar with how their respective cost principles addresses interest expenses, as differences exist across the cost principles. Generally, interest on borrowed capital is unallowable. However, interest on payments for equipment bought on time payments is allowable as a direct cost under certain conditions. Again, grantees should review the guidance in their relevant cost principles.
- **Pre-Award Costs.** Unless authorized in writing by the Grant Officer (for direct grantees only and to the extent they would have been allowable if incurred post-award), pre-award costs cannot be charged to an ETA grant. Pre-award costs are not authorized for formula grantees.
- **Capital Assets Costs.** Capital assets are non-current assets (assets that are not available or cannot be made available to finance current operations). Capital assets are the result of

capital expenditures and include (but are not limited to) land, buildings, and equipment. Expenditures for land or building improvements as well as building and equipment repairs or maintenance expenditures that increase the value of a capital asset or increase its estimated useful life are identified as capital expenditures in Federal regulations. 2 CFR Part 225 Appendix B, Item 15 provides the guidelines on the allowability of expenditures for capital assets, guidelines on conditions, and applicable prior approval requirements. The costs of capital leases are treated in the same manner. The following are requirements for capital expenditures:

- 2 CFR Part 225 requires the approval of the grantor agency for capital expenditures. This approval authority has been delegated to the states for the formula grants.
- To the extent that state procedures for state organizations are sufficient to define the allowability of ETA capital asset acquisition costs and do not inappropriately constrain non-state organizations, the state's policy is applicable to non-state governmental subgrantees.

There is similar language in 2 CFR Part 220 and Part 230 related to capital expenditures.

- **Leasing.** Interest costs associated with capital leases and other lease-purchase arrangements are allowable so long as they are reasonable and allocable to the grant pursuant to the specific criteria identified in applicable cost principles. Lease-purchase arrangements for real property, however, are unallowable under WIA programs. Permissible lease costs of real property are limited to operating leases, not capital leases. The cost principles now require capital expenditures be expensed in the period in which it is acquired. This may impact the allowability of interest charges.
- **Start-Up Costs.** Costs associated with the start-up of businesses are not considered allowable under the provisions of Section 181 (e) of the WIA. Start-up costs associated with entrepreneur training would also fall under this prohibition. This prohibition will also apply to the start-up costs of an agency that would provide services to WIA clients. However, the purchase of equipment (with appropriate prior approval) will continue to be an allowable cost. Additional examples of unallowable activities are contained in WIA and other program regulations.

The above examples are but a few of the specific items of cost that are addressed in the cost principles or the program regulations. Grantees and subgrantees are urged to become very familiar with their relevant cost principles

Note: Prior approval authority has been delegated to the Governor for the ETA-funded formula grants. For non-formula direct grantees, prior approval authority remains with the DOL Grant Officer. For subgrantees, approval authority rests with the awarding agency.

SELECTED ITEMS OF COST

Within 2 CFR Part 220, Part 225, and Part 230, and 48 CFR Part 31 (for commercial organizations), there is specific discussion of items of cost. Grantees should be familiar with these items and use them as ready references. The attached reference chart (Attachment II-4-1) is a summary of all cost items mentioned in the applicable cost principles. Some of the costs were discussed in the previous section. Note that some of these costs may be indirect. Grantees should also be familiar with the administrative cost limits as outlined in 20 CFR 667.200 et seq. for a full review of administrative costs.

Per the cost principles, some items of cost require pre-approval. As noted above, for competitive grantees, the Grant Officer is the approving authority, and for formula grants, the Governor or her/his designee is the approving authority.

As one can see, some items that are treated in one set of cost principles may not be treated in another. Similarly, some allowable costs are not addressed at all in the cost principles. In addition, some cost items require prior approval, or are allowable per the circular but unallowable by the ETA program regulations.

To the extent possible, these variations of allowability have been indicated in the attached table. Grantees and subgrantees are urged to consult closely with their applicable circular and to be cognizant of their particular program requirements. The table should be a starting reference point in inquiring as to specific items of cost, not a quick reference chart.

SPECIFIC WIA REQUIREMENTS

In addition to the allowable cost provisions of the cost principles, WIA regulations contain a number of provisions related to allowable and unallowable costs and activities. These provisions are listed below:

- Any legal expenses incurred for the prosecution of claims against the government are unallowable. This includes appeals to the Administrative Law Judge of disallowed costs or other claims and civil actions where the Federal government is a defendant. [20 CFR 667.200(c)(6)]
- With four exceptions, the costs of construction or purchase of facilities are unallowable for all WIA Title I programs [20 CFR 667.260]. The exceptions are listed below:
 - To meet obligations for access and accommodation under the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act (ADA) of 1990, as amended
 - Repairs, renovations, and capital improvements of real property, including
 - State Employment Service Agency (SESA) real property (identified at WIA Section 193), or

- Job Training Partnership Act (JTPA)-owned property transferred to WIA Title I programs
- Jobs Corps facilities
- To fund construction-related disaster relief projects.

The conditions in the cost principles would apply to the excepted construction costs. In addition, the YouthBuild program, which has a focus on training youth in the construction trades, has additional exceptions regarding acquisition and construction costs.

- WIA also prohibits certain activities. All costs associated with an unallowable activity are considered unallowable costs, regardless of their allowability under other circumstances. The prohibited activities are as follows:
 - Employment-generating activities, including economic development activities. An exception is made only for those employer outreach and job development activities directly related to participants. Employment-generating activities are addressed in 20 CFR 667.262.
 - Public service employment, except to provide disaster relief employment [20 CFR 667.264(a)(2)]
 - The wages of incumbent employees participating in Statewide economic development activities [20 CFR 667.264(a)(1)]
 - Employment or training programs for sectarian activities. This section does not prohibit the provision of services by faith-based organizations, unless those services are sectarian in nature. [20 CFR 667.266] [29 CFR 37.6(f)(1)]
- In the administration of USDOL social service programs:
 - No organization may be discriminated for or against on the basis of religious character or affiliation
 - No eligible organization may be denied the opportunity to compete for or receive USDOL and other Federal financial assistance based upon the organization's religious character or affiliation.

Faith-Based and Community Organizations (FBCOs) that receive USDOL support may:

- continue to carry out their religious activities
- keep religious signs or symbols in their facilities
- continue to select their board members (including members of the clergy) and otherwise govern themselves on a religious basis
- offer voluntary religious activities to program participants—keep in mind that no “direct” Federal support can be used for religious activities and these activities must be separate in time or location from Federally supported activities and voluntary for program participants.

Regulatory changes were published in the *Federal Register* on July 12, 2004, removing barriers to (FBCOs) participation in USDOL social service programs. These relevant changes can be found at:

- New equal treatment regulations (29 CFR Part 2, Subpart D)
 - Workforce Investment Act (WIA) nondiscrimination and programmatic regulations (29 CFR 37.6(f); 20 CFR 667.266 and 667.275)
 - Job Corps regulations (20 CFR 670.555)
 - Job Corps Policy and Requirements Handbook (PRH)—Sections 6.8 (Civil and Legal Rights), 2.2, 3.17, 5.4 and 6.9.
-
- The regulations also prohibit the use of WIA funds for business relocation, if the relocation results in the loss of an employee's job at the original location in the U.S. The use of WIA funds for customized or skill training, on-the-job training, or company-specific job applicant assessments are prohibited for the first 120 days a relocated business operates in the new location. The regulations require that the State develop specific pre-award criteria prior to providing WIA funds to a new or expanding business to ensure compliance with this requirement. [20 CFR 667.268]

There are also specific sanctions for violations of the unallowable activities requirements. The procedures followed by the Grant Officer are discussed further in Chapter II-12, *Audits and Audit Resolution*, and are listed in 20 CFR 667.510.

OTHER PROGRAM REGULATIONS AND GRANT AGREEMENT TERMS

Regulations for programs other than WIA may have provisions related to allowable and unallowable costs and activities. For example, Senior Community Service Employment program (SCSEP) regulations (20 CFR 641) include many allowable and unallowable costs provisions such as the ones listed under 20 CFR 641.630 and 20 CFR 641.850. In addition to program regulation, grant agreements may have specific provisions related to allowable and unallowable costs and activities. For example many grant agreements have terms that place limitations on the amount of administrative costs that can be expended by grantees. In the case of many types of grants awarded based on an SGA, specific provisions, including allowable activities and cost limitations that will apply to the grants awarded, are contained in the SGA itself.

Summary of Cost Items

KEY

- NT = Not treated in referenced Cost Principle
 A = Allowable
 AC = Allowable with conditions
 AP = Allowable with prior approval of either the Grant Officer or Governor
 U = Unallowable
 A/U = Some categories within the particular activity are allowable, while some are not.
 Please consult respective circular for precise explanations.

Note: Some of the costs on this chart are allowable under the circulars and prohibited under WIA or other program-specific regulations. You should refer to the program-specific regulations if you have any questions on allowability of a particular cost. This chart is for reference only.

In addition, when reviewing the provisions related to selected items of cost in the cost principles, the cost principles applied in establishing the allowability of certain items of cost apply whether the cost is treated as a direct or indirect cost. Failure to address a particular item of cost is not intended to imply that it is unallowable. Rather, the determination of allowability in each case should be based on the treatment or principles provided for similar or related costs. Note also that, in some instances, different cost items may be similarly named, and there may be some overlap in the cost items treated by the different circulars. Again, this chart is for reference only.

Cost Item	2 CFR Part 220	2 CFR Part 230	2 CFR Part 225	48 CFR Part 31
Advertising and public relations costs	AC/U	AC/U	AC/U	AC
Advisory councils	A	A	A	NT
Alcoholic beverages	U	U	U	U
Alumni/ae activities	U	NT	NT	NT
Asset valuations resulting from business combinations	NT	NT	NT	A
Audit costs and related services	A	A	A	NT
Bad debts	U	U	U	U
Bonding costs	NT	A	A	NT
Commencement and convocation	U	NT	NT	NT

Cost Item	2 CFR Part 220	2 CFR Part 230	2 CFR Part 225	48 CFR Part 31
Communication costs	A	A	A	NT
Compensation for personal services	A/U	A/U	AC/U	A/U
Contingency provisions	U	U	U	U
Cost of money	U	U	U	AC
Deans of Faculty and graduate schools	A	NT	NT	NT
Defense and prosecution of criminal and civil proceedings, and claims	AC/U	AC/U	A/U	U
Deferred Research and development costs	NT	NT	NT	AC/U
Depreciation and use allowances	AC	AC	AC	AC
Donations and contributions	U	U	U	U
Economic planning costs	NT	NT	NT	NT/U
Employee morale, health, and welfare costs	A	A	A	U
Entertainment costs	U	U	U	U
Equipment and other capital expenditures	AP/U	AP/U	AP/U	AP
Fines and penalties	U/AP	U/AP	U/AP	U
Fund raising and investment management costs	U/A	U	U	U
Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs	AC	AC	AC	A
General government expenses	NT	NT	U	NT
Goods or services for personal use	U	U	U	NT
Goodwill	NT	NT	NT	U
Housing and Personal Living Expenses	U	AP/U	NT	NT
Idle facilities and idle capacity	AC/U	AC/U	AC/U	AC/U
Insurance and indemnification	AC/U	AC/U	AC/U	A

Cost Item	2 CFR Part 220	2 CFR Part 230	2 CFR Part 225	48 CFR Part 31
Interest	A/AC/U	A/AC/U	A/AC/U	U
Labor Relations Costs	A	A	NT	AC
Lobbying	U	U	U	U
Losses on other sponsored agreements or contracts	U	U	U	U
Maintenance, operations, and repairs	A	A	AC	A
Materials and supplies costs	A	A	A	A
Meetings and conferences	A	A	A	See Item 2
Memberships, subscriptions, and professional activity costs	A/U	A/AP/U	A/AP/U	NT
Organization costs	NT	U/AP	NT	U
Other business expenses	NT	NT	NT	A
Page charges in professional journals	NT	A	NT	NT
Participant support costs	NT	AP	NT	NT
Patent costs	A/U	A/U	A/U	A/U
Plant and homeland security costs	A	A	A	A
Pre-award costs	U/AP	AC/AP	AC/AP	NT
Professional service costs	A	A	A	A
Proposal costs	A	NT	A	AP
Publication and printing costs	A	A	A	NT
Rearrangement and alteration costs	A	A	A	NT
Reconversion costs	A	A	A	NT
Recruiting costs	A	A	A	A
Relocation costs	NT	AC	NT	A/U
Rental costs of building and equipment	AC	AC	AC	AC
Royalties and other costs for the use of patents	A	A	A	A
Scholarships and student aid	A	NT	NT	NT
Selling and marketing	AC/U	U	U	A/U

Cost Item	2 CFR Part 220	2 CFR Part 230	2 CFR Part 225	48 CFR Part 31
Service and warranty costs	NT	NT	NT	A
Special tooling and special test equip.	NT	NT	NT	A
Specialized service facilities	AC	AC	NT	NT
Taxes	AC	AC	AC	AC
Termination costs applicable to sponsored agreements	AC	AC	AC	A/U
Training costs	A	AC/AP/U	A	AC
Transportation costs	A	A	NT	AC
Travel costs	AC	AC	AC	AC
Trustees	AC	AC	NT	NT

With limited exceptions, selected items of costs are treated similarly for all recipients of Federal awards. Principal differences in the treatment of costs unique to any one Circular are shown in bold within the table above.

Chapter II-5

Cost Classification

INTRODUCTION

This chapter provides guidance on the proper classification of costs to the ETA-funded programs covered by this TAG, discusses the administrative cost limitations applicable to WIA Title I programs, and addresses the use of a chart of accounts in cost classification. It contains the following sections:

- Cost Categories and Activities
- Administrative Costs and Limitations
- Other Guidance.
- Attachment II-5-1: ETA – 9130 Reporting Administrative Costs
- Attachment II-5-2: Sample Chart of Accounts

Attachment II-5-2 to this chapter provides a sample chart of accounts to assist grantees and subgrantees with the proper classification of costs. It should be noted that the sample chart is not required of ETA program operators, but it does provide an example of how the various cost categories and objectives associated with an ETA-funded program might be classified.

COST CATEGORIES AND ACTIVITIES

Cost classification is described in the OMB cost principles (2 CFR Parts 220, 225, and 230) as the process used to assign costs to benefiting cost objectives—either the ultimate objective or interim objectives—which then are usually allocated on some basis of benefit to the ultimate objective. In the ETA-funded programs, the ultimate cost objectives that may receive costs are the ETA-funded grant (with its corresponding year of appropriation) and the cost categories (as applicable). However, in order to comply with the reporting instructions under many of the grants, it will be necessary for the grantees and subgrantees to identify costs by a number of other cost objectives such as the individual program activities. This may be done through classification in the accounting system or through a linking spreadsheet that links the accounting system to the Federal reports. If a linking spreadsheet is used, a clear audit trail must exist between the official books of account and the Federal reports.

WIA Title I Cost Categories

There are only two cost categories for the WIA Title IB grants. These are Administration and Program cost categories. It should be noted, however, that most organizations will want to account for the costs by additional activities or cost objectives in order to better plan and assess

the effectiveness of program activities. For example, a Local Workforce Investment Board (LWIB) may want reports on the costs of providing specific activities or services such as core services vs. intensive services, or the amounts spent on individual training accounts (ITAs). To determine the proper classification of costs within the agency's books of account, the organization must determine the extent to which these reporting categories will also be separate classifications within the chart of accounts. At any rate, each organization must have a system to trace costs from the Federally required reports to the official books of account and source documentation.

While there are only two cost categories, the number of reporting categories may be larger. Thus, the number of necessary cost objectives increases. The reporting formats for WIA Title I programs indicate that an organization must also report program income, both earned and expended, as well as the non-Federal costs of each program. Grantees should carefully review their systems for charging costs to ensure that all the cost activities may be adequately accounted for and that the costs reported on the applicable quarterly ETA Federal financial reports are traceable to both the accounting system and source documentation. The reporting requirements applicable to WIA programs are addressed more fully in Chapter II-9, *Financial Reporting*.

Additional reporting categories must be addressed as part of the cost classification system for the WIA Title ID Native American and Farmworker programs and Title IB Youth programs. For these programs, the ETA also requires costs to be reported by program activities such as employment and training services, assistance, or summer activities. Cost classification requirements for Native American programs are addressed in 20 CFR 668.830 and for the NFJP programs at 20 CFR 669.550. In addition, Title IB Youth programs must report costs by the eligibility categories of in-school and out-of-school youth in order to assess compliance with the requirement of 20 CFR 664.320 that a minimum of 30 percent of the funds be expended on services to out-of-school youth. Any cost classification system must account for these variations in the individual programs.

Non-WIA Programs

For the non-WIA programs covered by this TAG, the cost classification system must be sufficient to trace Federally required reports to source documentation. The system must also be in accordance with GAAP. Costs for other ETA-funded programs must be classified by funding sources and cost objective. There are no cost categories in the WIA sense for Wagner-Peyser or for Unemployment Insurance (UI) programs. Grantees are cautioned, however, that they must either account for reporting categories within the cost classification system or utilize a linking spreadsheet to account for costs by reporting category.

ADMINISTRATIVE COSTS AND LIMITATIONS

WIA Title IB Formula Grants

Administrative costs are limited in the WIA program to a maximum of 10 percent of the total program year allocation at the local level and 5 percent of the amount allotted at the state

level for formula grantees. [20 CFR 667.210(a)] While allotted and allocated by the funding streams of Adult, Dislocated Worker, and Youth programs, neither the state nor the local level administrative costs need be tracked by the particular funding streams. [20 CFR 667.210(a)(3)] However, grantees are responsible for assigning costs back to the various funding streams for reporting purposes. Cost limitations are measured at the end of the grant period by comparing the total reported administrative expenditures to the amount available for administration. If administrative costs exceed the maximum limitation, the amount in excess of either the 5 percent for state administration or the 10 percent available for local administration becomes a disallowed cost and is subject to repayment.

Example: The state allotment for WIA Title IB funds is \$1,000,000 for Adult programs, \$500,000 for Youth programs, and \$750,000 for Dislocated Worker programs, for a total Title IB allotment of \$2,250,000. Of this amount, 5 percent of each allotment (\$50,000 plus \$37,500 plus \$25,000, for a total of \$112,500) is available for administrative costs at the state level.

Example: A Local Workforce Investment Area (LWIA) receives the following Title IB allocations: \$200,000 for Adult programs, \$50,000 for Youth programs, and \$125,000 for Dislocated Workers, for a total allocation of \$375,000. Of these amounts, the LWIA has 10 percent of each allocation (\$20,000 plus \$5,000 plus \$12,500, for a total of \$37,500) available for administration.

WIA Title ID Programs

The administrative cost limitation applicable to the INA program and the NFJP are negotiated and contained in the individual grant agreements. The definition of administrative costs is the same for the Title ID programs as other WIA programs and is discussed further in this chapter.

Non-WIA Programs

The amounts available for grant administration activities for the non-WIA grants covered by this TAG will vary. Where there are no statutory limitations on administrative funds, grantees may be subject to limitations contained in the grant agreements. Grantees are urged to review their particular grant agreement for specifications. In classifying administrative costs, grantees and subgrantees should remember the concept of direct benefit to clients. Costs that cannot be associated directly with provision of client services, including oversight and management functions, as defined in 20 CFR 667.220, should be considered as administrative costs and subject to the limitation. A few ETA-funded programs, including TAA and the Older Workers program, follow their own definition of administrative costs, and some, such as UI and Wagner-Peyser, do not require separate classification of administrative costs.

WIA Title I Administrative Cost Definition

The regulations define administrative costs at 20 CFR 667.220(a) as the allocable portion of the costs associated with specific functions and not related to the “direct provision of

workforce investment services, including services to participants and employers.” The administrative functions are specified to include the following:

- General administrative functions such as accounting, financial and cash management, procurement, property management, personnel management, and payroll
- Audit functions and those duties associated with coordinating the resolution of findings originating from audits, monitoring, incident reports, or other investigations
- General legal services
- Oversight and monitoring of administrative functions
- Goods and services used for administrative functions
- Developing systems, including information systems, related to administrative functions
- The costs of awards made to subrecipient or vendor organizations for administrative services of the awarding agency (for example, a payroll service for staff or participants).

The intent of these regulations is quite clear and provides relief to WIA grantees. Only those costs directly associated with the administrative management of the programs will be classified to the WIA administrative cost category. For example, planning is not considered an administrative cost, nor are the costs of performance tracking. Many cost objectives that would traditionally be considered administrative in nature are exempted from classification to the WIA administrative cost category. The regulations further specify that the costs of information systems related to participant and performance information are to be charged to the program cost category. Grantees are urged to carefully review the list included in the regulations and revise their WIA cost classification system as needed. If a grantee operates both a WIA grant and a non-WIA grant such as Temporary Assistance to Needy Families (TANF), additional coding on the chart of accounts may be needed to differentiate between the two programs.

The regulations also specify the level within the WIA program subject to the administrative cost definition. Administrative costs are accumulated and reported only by state and local boards, direct recipients (i.e., the state or a Title ID grantee), the local grant recipient or subrecipient (i.e., the LWIA), the fiscal agent for a local area, and the One-Stop operator. [20 CFR 667.220(a)] If the local area makes an award to a vendor for an administrative function such as developing a procurement system, then the vendor costs are classified as administrative. With the exception of the aforementioned type of administrative contract, all awards to vendors and subrecipients are considered program costs and would be reported in the program cost category, even if associated administrative costs are included in the total costs.

Example: An LWIA makes an award to a certified public accountant (CPA) firm to perform financial monitoring of subrecipients. The costs of the award would be classified as local administration.

Example: An LWIA makes an award to a nonprofit organization as the One-Stop operator. The nonprofit organization must classify the costs associated with the operation of the One-Stop center as both program and administration. The administrative costs of the nonprofit would be only those costs listed in 20 CFR 667.220(b). **Caution:** Should the nonprofit organization also receive WIA funds

as a service provider at the One-Stop, it must classify these costs as both administrative and program. If an organization is designated as a One-Stop operator or is part of a consortium developed to operate the One-Stop center, then it is the nature of the organization that determines whether the costs must be classified as administrative or program, not the nature of the award. [20 CFR 662.400(c)]

Other Administrative Cost Guidance

The definitions of administrative and program costs contained in the WIA regulations at 20 CFR 667.220(b-c) are applicable to all WIA-funded programs.

Only the following Title IB entities will incur costs that are to be reported as administrative costs:

- The State (as the grant recipient)
- The State Workforce Investment Board
- The Local Workforce Investment Board (LWIB)
- The local grant recipient
- A local grant subrecipient and/or fiscal agent whose purpose is to assist in the administration of grant funds
- The local One-Stop operator. [20 CFR 667.220(a)]

OTHER GUIDANCE

Job Title vs. Job Function

Staff and related costs should be classified against the appropriate cost category or program activity based on the job duties actually being performed. If staff members perform duties related to more than one category or activity, then the costs should be allocated on the basis of actual time worked or another equitable method. [20 CFR 667.220(c)(2)]

Example: A One-Stop center director spends four to six hours every week providing mentoring services to WIA Title I participants. The director's salary and fringe benefits are classified as administration and program services based on a time sheet prepared on a biweekly basis. If the center director's time is wholly classified as administration, a time sheet would not be required; however, the job description should be sufficiently detailed to serve as documentation for the classification. **Note:** A job description alone would not be sufficient to support the personnel compensation costs. Both 2 CFR Part 225 (A-87) and Part 230 (A-122) contain requirements for activity reports or periodic certifications. These requirements are also addressed in Chapters II-4, *Allowable Costs* and II-8, *Cost Allocation and Cost Pooling*.

Vendor-Level Cost Classification

Due to of the nature of the goods and services they provide, vendors are not normally expected to break out their invoices by program activity or cost category. Recipients and subrecipients, however, must classify the costs of the goods and services procured from vendors. There may be some instances in which a vendor provides services that may be charged to more than one activity/category, and the grantee must classify the costs properly. In these instances, the recipient/subrecipient must establish an appropriate reporting or invoicing arrangement to properly classify the costs. The establishment of appropriate reporting/invoicing is also critical to the recipient classifying the costs by the appropriate participant eligibility category. Appendix E contains a listing to assist grantees in distinguishing between subrecipients and vendors.

Example: The contract between an LWIA and the vendor includes both youth and adult support services. Clearly, two separate activities are being provided, and the vendor serves both youth and adult participants. The invoicing arrangement between the vendor and the grantee must clearly delineate the services provided, the costs of each, and the costs by type of participant in order for the grantee to comply with ETA reporting and compliance requirements.

Indirect Costs

Indirect costs are defined in the cost principles as those costs incurred for a common or joint purpose, benefiting more than one cost objective, and not readily assignable without a disproportionate effort. Indirect costs are usually recaptured through the application of an indirect cost rate, and the costs are usually accumulated within the organization in an indirect cost pool.

The allocation base for indirect costs must ensure equitable distribution to all programs to ensure it meets the benefits received test. The organization should continuously evaluate whether the allocation base elements among all programs is proportionate to the benefits to be received from the indirect costs. The most commonly used indirect cost bases are total direct personnel costs (salaries/wages, plus fringe benefit costs) and modified total direct costs.

For most organizations, the indirect cost pool includes costs associated with a number of functions/activities that are not administrative costs under the WIA definition. The following is the methodology for determining the portion of indirect costs chargeable to the administration and program under cost categories for any given WIA program.

1. Review all the costs included in the indirect pool and label them as program or administrative costs based on the WIA definition.
2. Calculate the proportion (percentage) of total costs for each of the two categories.
3. Calculate the total dollar amount of indirect costs attributable to the particular WIA program (i.e., apply the negotiated indirect cost rate to the specified base).

4. Apply the percentages calculated in Step 2 to the total dollar amount of indirect costs to establish the dollar amount that is to be recorded/reported as administrative costs and the amount that is program costs for that particular program.

Examples of costs that may be both administrative and program costs might be the director's time and associated costs and space and occupancy costs. Examples of costs that might be administrative under some programs, but considered program costs under WIA, would include oversight and planning for program services.

Attachment II-5-1 to this chapter provides a matrix showing, for each program, on which line on the ETA – 9130 Financial Report the administrative costs should be reported.

Chart of Accounts

A chart of accounts is a listing, usually numerical, that provides an organization with the proper codes against which to charge costs in the general ledger and to then report the financial results of operations. There is not a preferred or a best way to develop a chart of accounts to use in the classification and posting of costs to a general ledger or accounting system. Each organization must determine the various types of costs within the organization, not just the ETA costs, and develop a chart of accounts that permits the organization to accumulate and track costs in the most efficient and effective manner possible. However, all charts of accounts should include at least the following classifications: funding sources, cost objectives (such as salaries), and program activities (as necessary to report results).

In developing a chart of accounts, an organization must address the level of detail required by Federal reporting requirements, cost principles, auditing standards, and organizational needs such as planning and evaluation. In order to accurately classify costs, the index must provide for the identification of:

- Sources of funds (e.g., WIA Adult, foundation funds, state programs, etc.)
- Cost objectives (e.g., salaries, FICA, insurance, telephone, rent, etc.). Cost pools (for example, an administrative cost pool or a case manager's cost pool) would also be identified
- Program activities or cost categories. Examples include vouchers or ITAs for training services, administration costs, supportive services, etc.
- Related cost objectives such as program income expended, matching costs, etc.

An example of a chart of accounts is shown in Attachment II-5-2 to this chapter.

ETA – 9130 Reporting Administrative Costs

ETA – 9130 U.S. DOL ETA Financial Report		
For programs which use the basic – unmodified ETA-9130	10f. Total administrative expenditures	<p>An entry is required for this line item for all grants subject to an administrative cost limitation.</p> <p>Enter the cumulative amount of accrued expenditures for administrative activities. Administrative costs must be necessary and reasonable costs (direct and indirect) which are not related to the direct provision of services to participants, but relate to overall general administrative functions. Consult the appropriate program rules and regulations and/or grant award specifications for specific definitions and/or limitations on administrative costs.</p> <p>(This line item is a portion of the amount reported on Line 10e.)</p>
Indian and Native American Program	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Employment Service and Unemployment Insurance Programs	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
National Farmworker Jobs Program	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Older Worker Program	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
	<i>11b. Administration – Headquarters</i>	<i>Enter expenditures at the direct recipient level for administrative costs, including both personnel-related and non-personnel-related, and both direct and indirect, as described in OAA-2006 section 502(c) (4).</i>

Older Worker Program (Continued)	<i>11c. Administration – Local</i>	<i>Enter expenditures at the program operator level for administrative costs, including both personnel-related and non-personnel-related and both direct and indirect, as described in OAA-2006 section 502(c) (4).</i> <i>(Lines 11b and 11c should equal Line 10f.)</i>
Workforce Investment Act Reports		
Local Adult	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Local Dislocated Worker	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Local Youth	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Statewide Adult	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Statewide Dislocated Worker	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
Statewide Youth	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified
WIA – Statewide Rapid Response	10f. Total administrative expenditures	Same requirements as in ETA–9130 Basic – Unmodified

Sample Chart of Accounts

As has been previously stated, there is no single method for developing a chart of accounts to use in classifying costs in the grantee's accounting system. The chart provided in this attachment represents one method of coding costs for the WIA Title IB Adult program. It is not the only way in which costs may be classified, is not a prescribed system, and is presented for illustrative purposes only. Grantees are urged to develop their own specific organization's chart of accounts based on funding, grant and organizational needs, cost principles, and GAAP requirements.

The sample chart of accounts utilizes a four-level coding system. Each of the levels is identified, and examples of the appropriate codes for each level have been provided. These levels and their specific codes could be expanded as necessary to cover all the different costs of an organization.

Level 1 Funding Sources (5 digits)

- 10 WIA Title I – Local Adult
 - 10P08 – PY 2008
 - 10F09 – FY 2009
 - 10P10 – PY 2010
 - 10F11 – FY 2011
 - 10P11 – PY 2011
 - 10F12 – FY 2012

- 15 WIA Title I – State Adult
 - 15P08 – PY 2008
 - 15F09 – FY 2009
 - 15P10 – PY 2010
 - 15F11 – FY 2011
 - 15P11 – PY 2011
 - 15F12 – FY 2012

- 20 WIA Title I – Local Dislocated Workers
 - 20P08 – PY 2008
 - 20F09 – FY 2009
 - 20P10 – PY 2010
 - 20F11 – FY 2011
 - 20P11 – PY 2011
 - 20F12 – FY 2012

- 25 WIA Title I – State Dislocated Workers
 - 25P08 – PY 2008
 - 25F09 – FY 2009

- 25P10 – PY 2010
- 25F11 – FY 2011
- 25P11 – PY 2011
- 25F12 – FY 2012

- 26 WIA Title I – Dislocated Workers Rapid Response
 - 26P08 – PY 2008
 - 26F09 – FY 2009
 - 26P10 – PY 2010
 - 26F11 – FY 2011
 - 26P11 – PY 2011
 - 26F12 – FY 2012

- 30 WIA Title I – Local Youth
 - 30P08 – PY 2008
 - 30F09 – FY 2009
 - 30P10 – PY 2010
 - 30F11 – FY 2011
 - 30P11 – PY 2011
 - 30F12 – FY 2012

- 35 WIA Title I – State Youth
 - 35P08 – PY 2008
 - 35F09 – FY 2009
 - 35P10 – PY 2010
 - 35F11 – FY 2011
 - 35P11 – PY 2011
 - 35F12 – FY 2012

- 60 Miscellaneous receipts
- 90 State general funds

Level 2 Participant Type (1 digit)

- 1 Adult
- 2 Dislocated Worker
- 3 Youth
- 4 WIA non-assigned
- 5 Non-WIA clients
- 6 WIA Youth Out-of-School
- 7 WIA Youth In-School
- 8 Incumbent Worker
- 0 Not applicable

Level 3 Activity or Cost Category Code (3 digits)

100	Administrative
110	Administrative cost pool
200	Program activities
210	Core services
220	Work experience (Youth)
230	Intensive services
240	On-the-job training
250	Classroom (post-secondary) training
260	Job placement services
270	Supportive services
275	Child care
300	Individual development accounts
400	Intake, assessment, and eligibility determination
500	Case management
600	Case management pool
700	Intake pool
000	Unassigned or not applicable

Level 3A Service Provider/Subgrant Code (1 digit)

1	Subgrant award
2	ITA
3	Contract
4	Direct payment
0	In-house or not applicable

Level 4 Object Account or Expenditure Accounts (3 digits)

100	Staff wages
120	Staff fringe benefits
130	Staff morale/welfare
140	Staff training and education
150	Staff travel
200	Office supplies
300	Equipment
310	Computer hardware
320	Office furniture
330	Equipment leases
340	Other equipment purchases
400	Outside services
410	Legal services
420	Consultant and professional services
430	Communications
435	Telephones

- 440 Disbursing and payroll services
- 500 Miscellaneous costs
- 510 Insurance (non-staff related)
- 515 Participant insurance
- 520 Building space lease
- 525 Utilities
- 530 Miscellaneous computerization
- 540 Advertising
- 550 Memberships and subscriptions
- 600 Printing and duplication
- 700 Participant costs
- 720 Participant wages
- 730 Participant fringe benefits
- 740 Support services, i.e., child care, etc.
- 000 Not applicable (describe why)

Example: The cost of child care services provided to an individual WIA adult participant may be coded as 50P10-1-275-4-740. This would equate to a cost for participant support services paid through a direct payment to the vendor for the program activity of supportive services on behalf of a WIA adult participant. The cost is funded by PY2010 WIA Title IB Adult grant from statewide funds.

Example: The cost of RFP public notice in the WIA Rapid Response program may be coded as 26P11-0-100-4-540. This shows the administrative cost was charged against WIA Rapid Response PY 2011 funding stream.

Example: A Work experience cost for a WIA out-of-school youth participant would be coded as 30F12-6-220-4-720. This shows the costs were participant wages charged against WIA Local Youth FY 2012 funding stream.

In order to have an adequate chart of accounts, each of the above codes should be defined, with examples of the cost and the documentation requirements for each. In this way, the chart of accounts provides internal controls over the charging of costs and serves as documentation for allowable costs and for auditors when they trace costs from the Federal reports to the official books of account. Listed below are just two examples of this description and documentation. The same process should be completed for each classification code on the final chart of accounts.

Example: 150 Staff Travel. This includes all transportation, subsistence, and arrangements related to staff travel on official business, including training conference costs, staff workshops, and costs for meals and related items that are incurred by employees who are in travel status on official business. Costs may be charged on an actual basis or on a per-diem or mileage basis in lieu of actual costs. Costs of entertainment, travel not related to the specific authorized purpose, and alcoholic beverages are not chargeable. For use of a private vehicle,

the employee must provide documentation that minimum insurance has been obtained.

Documentation requirements include copies of a mileage log maintained by the employee, travel authorizations, receipts, and vendor invoices.

Example: 200 Office Supplies. The costs of materials and supplies necessary to carry out the objectives of the program are allowable costs. Supplies are defined and managed in accordance with the requirements of 29 CFR 95.35 and 95.2(11). Purchases are charged at their actual prices after deducting all cash discounts, trade discounts, rebates, or allowances. Shipping and delivery are a normal part of the cost of supplies.

Documentation requirements include copies of paid receipts, paid vendor invoices, or supply documentation, if no outside vendor is used.

Chapter II-6

Cash Management

INTRODUCTION

This chapter discusses state-level cash management, describes the cash management requirements for non-state grantees and subgrantees, and provides guidance and suggestions on efficient and effective cash management below the state level.

This chapter contains the following sections:

- State-Level Cash Management
- Cash Management at the Grantee (Non-State) Level
- Cash Management at the Subrecipient Level
- Additional Cash Management Considerations
- Attachment II-6-1—Funding Techniques under the Cash Management Improvement Act (CMIA).

What the Regulations Require

The regulations governing payments are found at 29 CFR 97.21 and 29 CFR 95.22. The two regulations are substantially the same and are summarized as follows:

- The time between receipt and disbursement of funds should be minimal.
- Grantees and subgrantees are to be paid in advance, provided they comply with certain requirements.
- Reimbursement is the preferred method of payment if the above standard is not met.
- To the extent possible, funds should be deposited in minority- or women-owned banks.
- Funds are to be held in an insured interest-bearing account (29 CFR 95.22).
- Interest earned on Federal funds is remitted according to OMB circular (29 CFR Part 95 and 97) requirements. For WIA Title I programs, interest is treated as program income.
- Department of the Treasury Regulations [31 CFR Part 205] provides rules and procedures for efficient Federal-state funds transfers

STATE-LEVEL CASH MANAGEMENT

States are subject to cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21. The 31 CFR Part 205 regulations implement the CMIA of 1990. The purpose of the CMIA is to make the process of transferring funds between states and the Federal government more equitable and efficient. Attachment II-6-1 explains more about funding techniques under CMIA.

Subpart A of Part 205 establishes requirements for cash transfers between the states and the Federal government for certain Federal programs listed in the regulation as well as other major Federal programs as determined from state single audit data and other data as necessary. Subpart A establishes the methods to be used and the requirements to be followed in programs covered by the CMIA. These specific methods are contained in a Treasury-State agreement negotiated between the U.S. Treasury Department and each state. Coverage of each ETA-funded program under Subpart A provisions is wholly dependent upon the individual state thresholds of materiality for the identification of major Federal assistance programs.

Subpart B of Part 205 establishes requirements for Federal financial assistance programs involving the states that are not subject to Subpart A requirements. State grantees should contact their respective state treasurers to determine the extent of any coverage of the ETA-funded grant under CMIA. The state treasurer will then determine the appropriate funding mechanism to be used to comply with the CMIA requirements.

Should the WIA funds be covered under the CMIA, grantees will need to use the Catalog of Financial Domestic Assistance (CFDA) numbers to identify the WIA funds. These identifying numbers are:

Adult funds: 17.258
Youth funds: 17.259
Dislocated Workers: 17.260
National Emergency Grants: 17.277

CASH MANAGEMENT AT THE GRANTEE (Non-State) LEVEL

While Governmental agencies are required to follow 29 CFR 97.21 cash management requirements, institutions of higher education (not a part of state government), hospitals and other nonprofit organizations, and commercial entities are bound by the cash management requirements of 29 CFR 95.22. Section 29 CFR 97.21(c) provides that grantees and subgrantees are to be paid on the advance method, provided they have a system in place to minimize time elapsed between receipt of Federal funds and actual disbursement. Section 29 CFR 95.22(b), applicable to nongovernmental grantees, states that, in order to be paid on an advance basis, recipients and subrecipients must maintain a financial management system in accordance with the requirements of 29 CFR 95.21 and have written procedures to ensure that the time elapsing between receipt of funds and disbursement is minimized. If the grantee is either unwilling or unable to comply with the required cash management standards, then the reimbursement method of payment must be used. [29 CFR 95.22(e)] Part 95 also encourages the use of minority- and

women-owned banks. Funds must be maintained in interest-bearing accounts unless the grantee meets the conditions listed at 29 CFR 95.22(k)(1-3). Advances of Federal funds shall be deposited and maintained in insured accounts whenever possible. [29 CFR 95.22(i)(2)] Grantees should periodically refer to the requirements of the Federal Deposit Insurance Corporation to confirm that adequate insurance coverage for deposit accounts is maintained. Grantees may also use the method of working capital advances to provide funding. Use of this method is further discussed later in this chapter.

In addition, 29 CFR 95.22(h) states that payments may not be withheld from grantees unless the grantee has either failed to comply with conditions of the grant award or has a delinquent unpaid debt with the Federal government.

The conditions stated at 29 CFR 95.22 apply equally to recipients and subrecipients as appropriate. A number of mechanisms such as zero balance accounting or estimated/average clearances (discussed in Attachment II-6-1) may be used by grantees to ensure compliance with the standard at 29 CFR 97.21(b). If the grantee is unwilling or unable to comply, then the reimbursement method must be used.

The U.S. Department of Health and Human Services (DHHS)-Payment Management System (PMS) is used by DOL to allow grantees to draw down the cash needed to fund allowable costs. The use of electronic funds transfer (EFT) and the PMS for direct grant drawdowns have substantially reduced the time needed to receive cash. With PMS, next-day payments are made through the Treasury Automated Clearing House and same-day payments for emergencies or special circumstances are available.

Cash may be requested daily. The ETA believes that grantee cash on hand should be limited to the amount needed for immediate disbursement.

CASH MANAGEMENT AT THE SUBRECIPIENT LEVEL

There are no Treasury Department cash management rules below the state level or for programs not covered by the Treasury-State agreement. As stated previously, the cash management requirements at 29 CFR 97.21 and 95.22 apply at this level. Grantees are responsible for developing and maintaining systems for payment to subgrantees. The following are cash management issues that should be addressed in developing a subrecipient payment system.

Cash on Hand Should Be Used Before Asking for More

Any cash available for disbursement for ETA-funded program purposes, whether from drawdowns, program income, rebates, etc., is considered to be ETA-funded grant cash on hand and should be used by the recipients or subrecipients before they request additional funds. Even if the program income is not spent until a later date, the cash associated with that program income must be disbursed before additional cash is requested. The cash proceeds from earned program income should be used immediately for whatever ETA-funded grant disbursement

needs exist. Recipients and subrecipients should not leave cash resulting from earned program income sitting idle in a bank account. Chapter II-7, *Program Income*, contains more information.

As stated above, the use of EFT and the PMS for direct grant drawdowns has substantially reduced the time needed to receive cash. Grantees should impose similar requirements on their subgrantees to the extent possible. The ETA believes that cash on hand should be limited to the amount needed for immediate disbursement at all levels of the program.

Rules Intended to Minimize Subrecipient Cash on Hand

The ETA requires that subrecipients obtain funds from their awarding agency as needed for disbursement. Transfers of cash from an awarding agency to a subrecipient should conform to the same standards of timing and amount as set forth for transfers from Federal agencies to recipients, as is required by both 29 CFR 97.21 and 95.22. To receive cash advances, subrecipients must demonstrate that they will maintain procedures that support Federal cash management requirements. These procedures are necessary to effectively minimize cash on hand at the subrecipient level and to allow for the expeditious transfer of cash. Subrecipients are encouraged to use zero balance accounting, estimated clearance, or average clearance cash management techniques as described in Attachment II-6-1 to this chapter. Where these techniques cannot be used, the subrecipient should justify any alternative arrangement, such as pre-issuance funding. It is recommended that recipients also provide advance payments to subrecipients via EFT whenever possible.

Limit Cash Advances

Subrecipients should limit cash advances to the minimum amounts needed and should time their advances to meet actual immediate cash needs. As cash distribution policies and practices vary from organization to organization, it is not possible to specify one time period against which all subrecipient cash balances can be measured to determine if the requirement of “immediate cash needs” has been met. Cash should not be requisitioned for delivery before the last day it can be received for timely payout through a given organization’s cash disbursement process.

The following examples help to illustrate the point. In them, an LWIB is part of an organization that requires cash in its checking account before writing or releasing checks. The reader must adjust the time frames in the examples for organizations with procedures that allow for receiving cash after checks have been written and released.

Example: The state requires the LWIB to order cash for delivery every Tuesday. The LWIB disburses its employee payroll every other Thursday. The LWIB should not order cash to meet its payroll until the Tuesday immediately before the Thursday on which the payroll is disbursed.

Example: The state allows the LWIB to requisition cash for delivery on all working days. An LWIB disbursing a payroll on Tuesday should order cash for delivery on Monday, not on the preceding Friday.

Monitoring Subrecipient Cash Management Practices

The following factors have an impact on the ability of subrecipients to effectively manage cash and should be incorporated into monitoring the payment systems of subrecipients:

- Grantee policy and procedures that the subrecipients must use to obtain cash
- Any legislative, procedural, or regulatory requirements with which the subrecipient must comply as a part of a larger organization
- The services available to the subrecipient from the banking industry in its locality
- The cost of such services in comparison to potential interest savings if such services are used.

A subrecipient operating in a restrictive environment that does not permit utilization of the best cash balance minimization techniques could not be criticized, whereas a subrecipient who elects not to practice good techniques should be criticized.

The second area on which subrecipients should focus is performance. Every organization should develop the best possible cash management procedures, and each should be evaluated in terms of how it actually performs within the given environment. A recipient's evaluation of a subrecipient should include the following questions:

- Is the subrecipient keeping its average daily balance of cash on hand to the minimum that can be maintained using the recipient's cash management procedures?
- Is the subrecipient minimizing cash balances as much as possible using the procedures that it has selected to use?

Timing Disbursements to Improve Cash Management

Grantee or recipient disbursement cycles and payment policies for subrecipients can be weekly, biweekly, or on some other cycle. To improve cash management, subrecipients should time their projected clearance patterns to coincide with the receipt of cash from the grantee. The following is one example of cash management procedures:

Day	Action	Clearance Pattern (%)
1	Subrecipient issues checks	-0-
1	Subrecipient requests cash	-0-
2	Recipient moves cash by EFT, deposits in subrecipient account; checks clear	60
3	Checks clear	20
4	Checks clear	15
5	Checks clear	5

Cash Advances Based on Disbursement Cycles

This section discusses how to manage cash effectively based on grantee and subgrantee disbursement cycles. Projections and timing are important for good cash management in an environment absent EFT—where cash is requested by the subgrantee, processed by the grantee treasurer, and mailed to each payee. As a general rule, subrecipients should use clearance dates rather than dates of disbursement to determine cash needs.

The following scenarios suggest best practices where the objective is to adjust, where possible, disbursement cycles to coincide with the receipt and payout of cash. For these scenarios, the following assumptions are made about disbursement cycles:

- The grantee disburses cash each Friday.
- The subgrantee payroll is biweekly. All other nonpersonnel services costs, including advances to contractors, coincide with payroll payment activity.
- It takes two weeks from the time a cash request is submitted until the subgrantee receives a check.

Scenario 1 (Fixed Disbursement Cycle). Specific dates of the week or month are preselected for check disbursement by the grantee and subgrantee. In such events, the subgrantee should not request cash in excess of the amount needed for payout purposes for a specific time period, such as weekly. This scenario affords administering agencies minimum flexibility with timing.

Scenario 2 (Subgrantee Flexible Disbursement Cycle). The grantee processes one weekly cash request from each subgrantee. The time lapse between a cash request submitted by the subgrantee and deposit in the subgrantee's account is 12 days. The subgrantee can control the disbursement cycle by scheduling payables or check release dates.

In this scenario, the subgrantee disbursement cycle can be adjusted for the 12-day turnaround time for receiving cash from the grantee. The subgrantee is controlling payables and timing of payments to coincide with the receipt of cash from the grantee. The receipt of cash and payout at the bank should be timed to occur simultaneously.

Scenario 3 (Subgrantee and Grantee Flexible Disbursement Cycles). The subgrantee is on a five-day ongoing disbursement cycle. There are no restrictions on the number of cash requests a subgrantee can submit to the grantee. The grantee processes cash requests on an ongoing 10-working-day disbursement cycle.

This scenario allows the subgrantee to plan daily cash disbursements to coincide with daily cash receipts. The subgrantee also can schedule payables for specific dates to improve cash management efficiency.

Cash Forecasting Considerations

Net Payroll/Payroll Taxes/Fringe Benefits. Net payroll, not gross salaries and wages, should be used for cash forecasting purposes. Normally, payroll deductions and tax deposits are disbursed at different times from the payroll dates. Fringe benefits such as retirement, medical, Federal Insurance Contributions Act (FICA), and Worker's Compensation are also normally paid in a period different from the corresponding payroll dates. In many agencies, fringe benefit costs are paid in advance by the employing agency and subsequently allocated back to the various departments on a quarterly basis. In such instances, cash should not be requested until the actual disbursement dates for items such as payroll tax and fringe benefit costs.

Accrued Expenses. Accrued expenses often will exceed cash disbursements. Cash is not needed to accommodate an accrual until the check written to pay an invoice is paid out by the bank.

Obligations. Incurring an obligation does not require cash. Cash is needed only when checks written against those obligations are presented at the bank for clearance, or when payment warrants are issued. The method would depend on local requirements.

Reimbursement Method

As stated in 29 CFR 97.21 and 29 CFR 95.22, reimbursement is the method of payment to be used when the subrecipient is unwilling or unable to comply with the specified cash management practices. Under this method, payment is made after the costs have been incurred and a request for repayment has been submitted to the awarding agency.

Working Capital Advance Method

Working capital advance is the method for advancing funds to the subrecipient to cover its estimated disbursement needs for a given initial period, and then providing reimbursement payments for subsequent periods. This method would not be used for subrecipients that qualify for advances. However, this method can be used in place of the reimbursement method if the recipient determines that the subrecipient lacks sufficient working capital.

The amount of the initial advance should be geared to the subrecipient disbursement cycle. After the initial period, the payments are approximately equal to the subrecipient's unreimbursed program payments. After the initial advance, the awarding agency reimburses the subrecipient for its actual cash disbursements.

Generally, working capital advances can be made only when the advance method of payment is not available and when based on regulations and guidelines affecting the amount.

The following example shows how working capital advance payments are processed and presents other considerations:

Example: The grantee's policy is to limit working capital advances to the first week of disbursement needs. A subrecipient submits a schedule of disbursements to be paid out during the first week of operation. The total amount of the contract is \$136,000. The maximum limit on a working capital advance in this example is \$22,700 (cash needs for one week). An example of a disbursement schedule to determine the amount of working capital advance is as follows:

Staff salaries	\$12,500
Insurance	1,000
Rent	800
Equipment rental	4,800
Office supplies	400
Training materials	<u>3,200</u>
Working advance	\$22,700

After a working capital advance is issued, the subrecipient would be reimbursed for its actual cash disbursements. This advance is a one-time process designed to facilitate the start-up of projects that need and qualify for an advance. Working capital advances must also be liquidated to ensure that excess cash is not maintained by the subrecipient. The method of liquidation may be specified by the awarding agency, provided that all advances are liquidated in a manner designed to minimize actual cash on hand at the subrecipient level. Some methods that might be used are reducing subsequent requests on a pro rata basis or reducing the first request by the amount of the advance.

This method cannot be used if the reason for using it is the unwillingness or inability of the awarding agency to provide timely advances to the subrecipient to meet its actual cash disbursements. If an awarding agency is reluctant or unwilling to implement efficient and

speedy cash management procedures, the agency is disqualified from making working capital advances.

ADDITIONAL CASH MANAGEMENT CONSIDERATIONS

Interest

The interest earned on cash drawn down for WIA Title I grants is considered program income. A more detailed discussion of the interest requirements for WIA Title I programs is found in Chapter II-7, *Program Income*. For all other programs, interest is treated as follows:

- Interest earned by states (for example, Wagner-Peyser Funds) is governed by the Treasury-State agreement and remitted as part of overall state cash management practices.
- In accordance with 29 CFR 97.21(h)(2)(i), non-state governmental grantees and subgrantees must remit interest earned on non-WIA Title I funds to the ETA on a quarterly basis. The grantee/subgrantee is entitled to retain amounts less than \$100 per year for administrative expenses.
- Nongovernmental grantees and subgrantees are governed by 29 CFR 95.22(1), which requires an annual remittance of interest to the Federal government. Grantees/subgrantees are authorized to retain up to \$250 per year for administrative expenses.
- Grantees and subgrantees are liable for interest earned on funds until the funds are paid out by the banks, not when a check or warrant is issued or disbursed by the grantee.

Local Policy

Some local governments require that cash be on deposit in the account before a check can be issued. In such instances, local governments are encouraged to regard funding documents (e.g., recipient-issued letter of credit/subgrant award) as a guaranteed equivalent of cash on hand.

Cash Forecasting

Cash forecasting identifies specific needs within a specific time frame and should be required. Cash forecasting can be daily, weekly, on some other defined disbursement cycle, or as needed. The point is not to prescribe a specific cash forecast period, but to gear the cycle to when cash is actually paid out at the bank. A valid clearance pattern is an acceptable method of cash forecasting.

Most local area grantees and subrecipients operate on a cash advance basis. To the maximum extent feasible, subrecipients should be provided with advance payments via EFT. Consistent with the policy of maintaining minimum cash balances, the recipient is required to develop procedures for subrecipients to submit requests for cash resources. Such procedures should not allow cash to be paid out in amounts that exceed immediate needs.

WIA Individual Training Accounts (ITAs)

ITAs are defined and addressed in the WIA regulations at 20 CFR Part 663, Subpart D. When an ITA has been established for an individual participant, payment for the training services may be made in a variety of ways. A formalized payment method should be in place before any payments are made. Payments under ITAs are governed by the cost standards applicable to the expenditure of all Federal funds. Unless specifically required as a condition of attendance, as in a tuition payment required before beginning a formal training course, payments should not be made in advance of the receipt of services. The ITA itself is not an expenditure document and does not authorize the drawdown of cash.

Funding Techniques under the Cash Management Improvement Act

Grantees and subgrantees may select from among several funding techniques, and it is possible to have a different funding technique for each program. These techniques are described in 31 CFR Part 205. While the techniques are discussed as they relate to a state grant under the CMIA, they may also be used by grantees and subgrantees not subject to the CMIA. The techniques discussed in this Attachment are:

- Zero Balance Accounting
- Estimated Clearance
- Average Clearance
- Pre-Issuance Funding.

Zero Balance Accounting

How It Works. With this technique, a recipient requests funds, and the agency deposits funds in a state account on the same day that program funds are paid out by the state. Under this arrangement, the account balance is always zero.

How It Works for Subrecipients. The same concept can be applied to subrecipients in a non-CMIA setting. A subrecipient requests funds equal to the amount paid out, and the state agency deposits the same amount in the subrecipient account on the same day program payments are made.

Using zero-based bank accounts, states can employ some variations to this technique to improve cash management at the subrecipient level. For instance, separate zero-based accounts could be established for all or a selected number of subrecipients at the same bank used by the recipient. As checks are presented for payment, the bank simply transfers cash from the state account to the zero-based subrecipient account in an amount equal to the total of checks presented each day.

Many organizations use a separate bank account for payroll. A more efficient arrangement is for the subrecipient to arrange for a zero-based payroll account with the bank. The bank simply transfers from the agency working account to the payroll account an amount equal to the amount of checks presented for payment. Such an arrangement eliminates the need for cash to be deposited in a payroll account during the time period needed to clear payroll checks.

Estimated Clearance

Neither the Federal government nor a state will incur an interest liability when this funding technique is properly applied.

How It Works. Clearance patterns that are auditable and based on sound principles must be established but need not track every transaction. Statistical sampling models can be used. Clearance patterns establish the cash needs and payout relationship. The following example is based on \$1.5 million worth of checks mailed to subrecipients/contractors by the state.

Day	Dollars Paid Out by State (%)	Cash Requested From Federal Government (\$)
0	Checks Mailed	-0-
1	-0-	-0-
2	-0-	-0-
3	-0-	450,000
4	30	600,000
5	40	300,000
6	20	150,000
7	10	-0-

This technique requires processing several drawdowns on consecutive days. Timing and error-free drawdowns are fundamental requirements of the estimated clearance technique.

How It Works for Subrecipients. The same concept can be applied at the subrecipient level. A subrecipient requests funds one business day prior to need, and the state deposits funds the next business day in the subrecipient bank account, based on the established clearance pattern. Timing and error-free drawdown processing are important to ensure cash availability.

Average Clearance

Under the CMIA, neither the Federal government nor the state will incur an interest liability when this funding technique is properly applied.

How It Works. Average clearance is established based on the dollar-weighted average number of days required for funds to be paid out (bank clearance) by the state after a disbursement. How this works is clarified in the following example. The factor is obtained by multiplying days by percent of dollars paid out. In this example, the state mails \$1.5 million in checks to subrecipients.

Days	Dollars Paid Out (%)	Factor
1 (Checks issued)	-0-	
2 Cash requested	-0-	
3 Cash deposited, Checks clear	30	.60
4 Checks clear	40	1.20
5 Checks clear	15	.60
6 Checks clear	10	.50
7 Checks clear	05	<u>.30</u>
	Total Average Days	3.20

Based on the above average clearance of three days, the state requests \$1.5 million on Day 2 and receives that amount on Day 3, which is the dollar-weighted average number of days required for checks to be presented at the bank rounded to the nearest whole number. As with estimated clearance, average clearance can be employed at the subrecipient level.

Pre-Issuance Funding

When this funding technique is applied, a state will incur an interest liability to the Federal government from the day Federal funds are credited to a state account to the day the state pays out the funds for program purposes. The following example shows how interest will accrue, assuming \$1.5 million in Federal funds deposited in the recipient's account on Day 0.

Day	Dollars Paid Out by Recipient (%)
0 (Federal funds deposited)	-0-
1 (Funds on deposit)	-0-
2 (Recipient issues checks)	-0-
3 Funds on deposit	-0-
4 Checks clear	60
5 Checks clear	20
6 Checks clear	10
7 Checks clear	5
8 Checks clear	5

How It Works. Under the above pre-issuance funding arrangement, the state will owe the Federal government four days of interest on 60 percent of the funds, or \$900,000, since that amount will be paid out for checks presented four days after Federal funds are deposited in the state account. The state will owe five days of interest on 20 percent of the funds, or \$300,000; six days of interest on 10 percent of the funds; and so on.

A state will incur an interest liability to the Federal government if Federal funds are in a state account prior to the day the state pays out funds for program purposes. A state interest liability will accrue from the day Federal funds are credited to a state account to the day the state pays out the Federal funds for program purposes.

Chapter II-7

Program Income

INTRODUCTION

This chapter defines program income, distinguishes between what program income is and is not, and provides guidance on the proper methods of calculating, using, and applying program income. It contains the following sections:

- Definition
- Program Income Inclusions
- Interest Income
- Program Income Exclusions
- Accounting for Revenue and Cost of Generating Program Income
- Accounting for the Expenditure of Program Income
- Uses of Program Income
- One-Stop Program Income.

What the Regulations Require

The requirements governing the use of program income are found at 29 CFR 95.24 (non-government grantees) and 29 CFR 97.25 (governmental grantees).

- Part 97 defines program income and encourages earning program income as a method of defraying program costs. The WIA regulations at 667.200(a)(5) require the addition method to be used to account for program income, as does Part 95.
- Both Part 95.24 and Part 97.25 specify that there are no requirements regarding program income earned after the grant period has ended.
- 20 CFR 667.200(a)(6) requires governmental and nonprofit organizations to account for all revenues in excess of costs as program income.
- 20 CFR 667.200(a)(7) requires that interest earned on Title I grant revenues be accounted for as program income. This includes the formula grants under Title IB as well as Job Corps, Veterans', Indian and Native American, and National Farmworker Jobs programs.

DEFINITION

Program income is defined in 29 CFR 97.25(b) as the “gross income received by the grantee or subgrantee directly generated by a grant-supported activity, or earned only as a result of the grant agreement during the grant period...” A similar definition is found in 29 CFR Part 95.2(bb).

PROGRAM INCOME INCLUSIONS

A list of the types of income that are considered program income for purposes of WIA grants is included in 29 CFR 97.25(a). The following list, drawn from the requirements of Part 97 and other regulations, addresses some of the differing types of program income that might be generated under the grants. The definition of program income in 29 CFR Part 95.2(bb) contains a similar list.

- **Fee for Services.** Income from fees charged for services.

Example: The One-Stop operator provides pre-employment services for a number of private businesses. There is a per-head fee for these services. The fees are considered program income.

Example: The One-Stop operator provides these same pre-employment services for both private businesses and participants eligible under WIA. The per-head fee is based on the total costs of the activity. The revenues realized from the fee charged to private businesses are considered program income.

- **User or Rental Fees.** Income from the use or rental of personal property acquired with grant funds.

Example: The local Job Service has purchased a fax machine with Wagner-Peyser funds and allows usage by Veterans’ program and UI representatives. A per-page fee is charged for such use. The fees are considered program income.

- **Sale of Products.** Income from the sale of goods constructed under a grant agreement.

Example: As part of a course on small business development, materials are bought and used to manufacture small items. The proceeds from the sale of these items are considered program income. If the goods produced were written materials, the sales of materials would also be considered program income. (See also the discussion on royalties in this chapter. Information on copyrights is also provided in Chapter II-11, *Property Management*.)

- **Revenues in Excess of Expenditures.** If a Governmental or nonprofit organization earns or receives revenue in excess of its costs under a WIA Title I program, that revenue is to be

treated as program income. This provision does not apply to commercial for-profit entities. The requirement applies to all Title I programs (Adult, Youth, Dislocated Workers, Job Corps, Native American, Farmworker and Veterans' programs). [20 CFR 667.200(a)(6)]

Example: A nonprofit youth service provider has a fixed-price contract for the provision of placement services to out-of-school youth. Based on their performance, they have earned revenues that exceed the costs incurred by the organization in providing the services. These revenues are considered program income.

INTEREST INCOME

Income earned from the interest paid on grant funds is treated differently for WIA Title I programs than for most other Federal grant programs and ETA-funded required partner programs such as Wagner-Peyser. Both the Act and the regulations specify that interest earnings are to be treated as program income and are subject to the rules applying to program income referenced in 97.25 and 95.24. [20 CFR 667.200(a)(7)] These rules apply to all programs funded under Title I of the WIA, including Adult, Youth, Dislocated Worker, Job Corps, Native American, Farmworker, and Veterans' programs. They do not apply to the non-WIA Title I programs funded under Wagner-Peyser, UI, Older Americans and the Trade Act. Interest earned under non-WIA programs is discussed in Chapter II-6, *Cash Management*. If an organization receives funds under both Title I programs and non-Title I programs, the grantee is responsible for identifying the proportionate share of any interest earnings attributable to each type of program.

Example: A nonprofit LWIB maintains an interest-bearing account for all grant revenues. The LWIB receives funding from both WIA and non-WIA ETA-funded grants. The interest earned on the WIA revenues would be treated as program income and added to the total WIA grant. The interest earned on non-WIA ETA funds would not be considered as program income but would be returned to the Federal government in accordance with the requirements of 29 CFR 95.22(l).

PROGRAM INCOME EXCLUSIONS

The regulations at 29 CFR 97.25(a) lists the types of revenues that are not included as program income. These same revenues would also be excluded under 29 CFR Part 95.2(bb). Each is listed below, followed by an example to illustrate application of the rule.

- **Applicable Credits.** Reductions to grant costs as a result of refunds, rebates, credits, discounts, or the interest earned on them.

Example: The WIA Adult program operator receives a year-end rebate based on volume purchasing of software. The rebate is not considered program income;

however, the proper accounting for the rebate is a reduction to the line item costs for software.

- **Sale of Property.** Proceeds from the sale of personal property. The requirements for handling the revenues from the sale of property for which the grantee is accountable are covered at 29 CFR 97.32 and 29 CFR 95.30 through 95.37.

Example: The UI entity disposes of a copier with a fair market value of \$8,000, following the requirements of Part 97 and State requirements. The revenues realized from the sale of the property are not considered program income. However, the calculated share of the proceeds from the sale must be returned to the awarding agency.

- **Royalties.** Income from royalties and license fees for copyrighted material, patents, and inventions developed by a grantee or subgrantee. This income is considered program income only if specifically identified as such in the grant agreement or Federal agency regulations. [97.25(e)] Part 95 specifically excludes this income unless DOL regulations or the grant agreement specify otherwise. However, grantees and subgrantees should be aware that the payment of royalties by WIA and other Federally funded grants is an unallowable cost under 2 CFR Part 230 (A-122). DOL policy is that Federal funds may not be used to pay royalties for Federally developed projects or works.

Example: The One-Stop operator writes a software application to computerize its case management system. The program is copyrighted and licensed to non-Federally funded programs. The resulting revenues are not considered program income. The ETA maintains a royalty-free right for use and distribution of the materials; this is discussed further in Chapter II-11, *Property Management*.

Additional exclusions from program income are listed below:

- **Income Earned after the Grant Period Has Ended.** The grantee is not accountable for income earned after the end of the award period. However, the grantee must report program income expended after the grant period if the income was earned during the grant period.
- **Donations.** Donations and contributions are voluntarily given to the ETA-funded program. As they are not generated by the use of grant funds, such revenues do not constitute program income.
- **Profits of Commercial Organizations.** Profits earned by commercial for-profit organizations are not considered program income. Care should be taken to minimize the amount of profit generated by grants (see Chapter II-10, *Procurement*).
- **Matching Funds.** Funds provided to satisfy the matching requirements of the ETA grants are not considered program income. Conversely, program income generated through the ETA-funded grants may not be used to satisfy any match requirements.

- **YouthBuild.** Under the YouthBuild program, the proceeds from the sale of buildings constructed or renovated using YouthBuild grant funds are specifically excluded as program income. YouthBuild grantees are encouraged to use such proceeds for long term sustainability of the YouthBuild effort.

ACCOUNTING FOR REVENUE AND COST OF GENERATING PROGRAM INCOME

Two methods are used in accounting for revenue and cost associated with generating program income, the net income method and the gross income method.

Net Income Method

With the net income method approach, the costs incidental to the generation of program income are netted against or deducted from gross program income to determine the amount of net program income. The expenditures and revenues associated with performing the activity that generates program income are tracked separately in the accounting records. Periodically, revenues and expenses are netted to determine the amount of net program income. Net program income is then recorded in the appropriate program income account. Part 95 requires that the costs incident to generation not be charged to the grant when using this method.

Example: A nonprofit WIA youth service provider operates several training programs using fixed-unit-price, performance-based contracts. The expenditures incurred and revenues earned under each contract are accounted for separately. For each contract, expenditures and revenues are netted, and the net income resulting from each contract is then recorded as program income to the ETA.

In some cases, the most efficient approach to account for program income is to net revenues against only part of the costs in order to determine net program income.

Example: The local area grantee uses its own staff to conduct a conference on case management that is attended by other local area grantees and WIA-funded service providers. Staff costs of presenting or attendance are charged to the appropriate WIA expense accounts. These costs would include staff costs for conference coordination and logistics, meeting room costs, etc. The local area grantee's additional costs for conducting the conference are accounted for separately and total \$5,000. Registration fees and other revenues are also accounted for separately and total \$6,000. The conference produces net program income of \$1,000, which is recorded in the WIA grant account.

Gross Income Method

With this method, all gross revenues derived from program income activities are accounted for as program income. In turn, the grantee's share of the allocable costs associated with generating that revenue are charged to the appropriate program activities and/or cost

categories. In the accounting records, the entire amount of gross revenues would be recorded in the program income account for the funding period. The funding period to which the program income is assigned is the same funding period to which the corresponding expenditures are charged. Expenditures incurred in generating the program income are charged to the appropriate cost categories and/or program activity.

Example: The grantee funds a small business development course for WIA Dislocated Worker participants on a cost reimbursement basis. The participants prepare business plans and engage in the manufacture or production of items for sale to the public. ETA is billed for the cost of training, tools that will be retained by the participants, and parts that are used in production. The subrecipient charges all these costs to the appropriate cost categories/program activity based on the subgrant requirements. All the revenue collected from the sales is ETA-funded program income to the subrecipient, is recorded as program income in the books of account, and is to be used to provide additional ETA-funded services under the subrecipient agreement.

ACCOUNTING FOR THE EXPENDITURE OF PROGRAM INCOME

Once the amount of program income has been determined and the funding period identified, two alternative approaches may be used to account for the expenditure of the program income. The additional services may be separately accounted for in the program income account, or already recorded expenditures may be transferred to the program income account.

Separate Accounting

When using separate accounting, program income is treated as additional funds committed to the subgrant agreement, for which separately identifiable services are performed, and the expenditure of program income is accounted for separately from the original agreement. For accounting purposes, the program income is treated as if it were a separate subgrant or cost objective.

Example: A nonprofit organization earned \$5,000 in program income, which was the amount by which revenues exceeded costs under a fixed-unit-price agreement funded by the ETA. The organization used the program income to provide additional training and placement services consistent with the terms of the original agreement and established separate ETA-funded accounts by cost category to record the expenditures incurred in providing the additional services.

Transfer of Expenditures

When using this approach, expenditures are initially recorded in the accounts of the original agreement and are subsequently transferred to the program income account to offset the amount of program income earned. The result is that the program income is accounted for as

fully expended, while expenditures charged under the subgrant agreement are reduced by the amount of expenditures that have now been applied to program income.

Example: During the grant period, a service provider has recorded \$1,000 in program income. To expend the program income within the grant period, the service provider transfers \$1,000 in expenditures already incurred under the subgrant from the appropriate cost categories to the program income account and reduces subgrant expenditures in the corresponding cost categories by that same amount. This has the effect of freeing up the \$1,000 to be used for additional expenditures under the subgrant. When submitting its expenditure report, the service provider reports the amount of program income earned, the amount expended by cost category, and final net expenditures charged to the subgrant.

Again, the WIA regulations require that the net program income be added to the total funds available for the program. Thus, the transfer of expenditures is applicable only should the entity fully expend both the grant and the program income.

USES OF PROGRAM INCOME

The requirements for using ETA-funded grant funds also apply to the use of program income with the exception of the administrative cost limitation. These requirements include

- Allowable cost guidelines
- Cost classification guidelines
- Inclusion of program income earnings and expenditures in the audit
- Rules on procurement and selection of service providers
- Participant records and other record-keeping requirements
- Sanctions for misuse.

WIA regulations and 29 CFR 95.24(a) specify that program income is to be added to the total grant award and used to provide the same services as the original grant agreement. Neither Part 95 nor Part 97 specifies any requirements for earned program income that is not expended within the grant period.

However, both Parts 97 and 95 require program income to be expended in conformance with the terms and conditions of the grant, including provisions related to the period of performance or fund availability. The ETA thus requires program income to be wholly expended within the three-year period of availability for WIA formula grants or the period of performance specified in an individual grant agreement. Any program income funds remaining would be used to reduce the reported grant expenditures at closeout. A further discussion of the closeout process is contained in Chapter II-15, *Agreement Closeouts*.

ONE-STOP PROGRAM INCOME

Program income earned at the One-Stop center as a result of shared activities or shared costs is attributable to all partners participating in the cost or activity. If program income is earned at the One-Stop as a result of shared costs or activities, then that income must be distributed to all partner organizations that participated in the activity or cost. The program income should be allocated in the same proportion as the shared costs. Program income must be expended on allowable grant activities and is subject to the requirements discussed in this chapter related to earnings and expenditures. The earning, allocation, and use of program income should be addressed in the Resource Sharing Agreement. Partners may agree to use program income to reduce their share of costs or resources needed to fund the costs if that is allowable under the partners' authorizing statutes and regulations. WIA grantees and subgrantees are reminded that they must use the addition method in expending program income.

Chapter II-8

Cost Allocation and Cost Pooling

INTRODUCTION

This chapter provides general guidance on cost allocation principles, methods of allocating costs, the use of cost pools, development of Cost Allocation Plans (CAPs), and allocation of personnel services costs to ensure that ETA-funded costs are properly and equitably distributed to the benefiting cost objectives. This chapter also addresses the cost allocation requirements for programs. Cost allocation as it relates to the shared costs of One-Stop operations and the development of Memoranda of Understanding (MOUs) and Resource Sharing Agreements (RSAs) is discussed in Chapter I-3, *Proportionate Share and Cost Allocation*. This chapter contains the following sections:

- Requirements for Financial Management Systems
- Elements of Cost and Their Allocability
- Treatment of Costs
- Cost Pools
- Allocating Personnel Services Costs
- Allocation Bases
- Cost Allocation Plans
- Alternative Time Distribution
- Attachment II-8-1—Alternative Time Distribution Systems
- Attachment II-8-2—Sample Personnel Activity Report.

Allocability is one of the basic cost principles (discussed in Chapter II-3, *Cost Principles*) used in determining whether costs are allowable to ETA-funded programs. Allocability is a measure of the extent to which a cost benefits the ETA grant program in general and its cost objectives in particular. To the extent that a cost does not benefit the program, the cost cannot be charged to the Federal grant.

The total cost of a grant program is comprised of the allowable direct costs incident to its performance, plus the allocable portion of allowable indirect costs, less applicable credits. Direct costs are readily identified with and directly charged to a specific cost objective.

Costs that are not readily chargeable to a final cost objective are often aggregated into intermediate cost objectives, usually called cost pools, and are periodically allocated to final cost objectives using an appropriate allocation methodology. Cost pools can be established for any type of cost when it is beneficial or necessary to pool costs. All pooled costs must ultimately be allocated to the final cost objectives in proportion to the relative benefits received by each cost

objective. This chapter provides guidance on the allocation of direct, pooled, and indirect costs to the ETA-funded program.

REQUIREMENTS FOR FINANCIAL MANAGEMENT SYSTEMS

The regulations at 29 CFR 97.20 and 95.21(b) set the requirements for financial management systems. They require that organizations follow the cost principles written in the applicable OMB circular. These cost principles require, in general, that, to be allowable, a cost shall be necessary and reasonable for the proper and efficient administration of the program; be allocable to the program; and, except as provided in the case of governmental recipients/subrecipients, not be a general expense required to carry out the overall responsibilities of the Governor or a governmental subrecipient. Each of these conditions is defined in the cost principles and the DOL regulations.

Whether a cost is charged as a direct cost or as an indirect cost shall be determined in accordance with the descriptions of direct and indirect costs contained in the cost principles identified in the DOL's regulations at 29 CFR 97.22(b) and 95.27.

For nonprofits, the cost principles are contained in 2 CFR Part 230; for educational institutions, 2 CFR Part 220; and for state and local governments, 2 CFR Part 225. For commercial organizations, the cost principles are found at 48 CFR Part 31.

ELEMENTS OF COST AND THEIR ALLOCABILITY

Direct ETA-funded organizations are required to follow the cost principles contained in the appropriate OMB circular, as identified at 29 CFR 97.22(b) and 95.27. The cost principles include guidance on distinguishing between direct and indirect costs. Beyond the general guidance provided in the cost principles, there is no universal rule for classifying certain costs as either direct or indirect under every accounting system.

Costs are normally classified as direct or indirect based on their relationship to a particular cost objective. Generally, a direct cost can be traced to a particular cost objective, whereas an indirect cost is incurred for multiple cost objectives and is charged to an intermediate cost objective pending allocation. A cost may be direct with respect to some specific service or function but indirect with respect to the grant or ultimate cost objective. The shared costs of the One-Stop system may be either direct or indirect costs. The allocation process related to the shared costs of the One-Stop system is discussed in Chapter I-3, *Proportionate Share and Cost Allocation*.

This guide groups costs into three categories for purposes of discussing cost allocation and cost pooling. A brief description of each of these categories follows.

Direct Costs

Direct costs may be specifically identified with and assigned to a final cost objective, such as an ETA cost category. Direct costs are charged directly to a final cost objective such as a cost category or the ETA-funded grant and do not require any further allocation or breakdown by funding source or cost category.

Example: The salary cost of a staff person performing case management duties only for WIA Title IB Adult participants is directly assignable to the program cost category under the Adult formula grant. It is fully chargeable to WIA Title IB Adult programs because the case manager is serving adult participants only.

Example: The staff person in the above example performed case management duties for both NEG participants and WIA Adult participants and documented the hours spent on each program on a time sheet. The salary costs would be a direct cost to both NEG and to the WIA Title IB Adult, based on the documented time sheet hours.

Shared Costs

Shared costs are costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives. These costs are incurred for a common or joint purpose benefiting more than one cost objective. These costs are similar to the general indirect costs in that it is easier to assign or allocate them based on some measure of benefit received than to assign them directly to final cost objectives.

Example: Three staff members provide case management services to participants in the WIA program without regard to whether the participants are Adult or Dislocated Worker participants, and it is difficult to identify time spent by participant. The case managers' costs are directly assigned to the program cost category (Core Services) but are not readily assignable by type of participant. The case managers' costs could be directly charged to a cost pool established to accumulate such costs and later distributed to the appropriate category using an appropriate allocation method, such as the relative number of participants enrolled.

Indirect Costs

These costs may originate in the recipient's or subrecipient's own organization or in other departments that supply goods, services, or facilities to the ETA-funded program. Most often, however, general indirect costs are costs that are incurred to support the overall operation of the organization, and for which a direct relationship to a particular ETA-funded program cannot be shown without effort disproportionate to the results achieved. Indirect costs are charged back to the program using an indirect cost plan (or a CAP) or rate. The development of indirect cost rate

or allocation plans is contained in Appendix C and E of 2 CFR Part 225 and Appendix A of 2 CFR Part 230 and is discussed in further detail later in this chapter.

Example: The grantee is a department within the city, and the city treasurer processes payroll for payment. Staff in the treasurer's office cannot readily identify the time and other costs associated with processing the grant program's payroll. Rather, the city's approved indirect cost plan is used to charge each ETA-funded program its proportionate share of the processing costs at least quarterly, using transaction counts as the basis for allocation.

TREATMENT OF COSTS

Intermediate and Final Cost Objectives

A cost objective is an activity for which separate cost measurement is performed. A further distinction is made between intermediate and final cost objectives.

An intermediate cost objective can be a cost pool, center, or area established for the accumulation of costs, assigned to such dissimilar categories as organizational units, functions, objects, or items of expense. Final cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts, and/or other activities.

The final cost objectives discussed here are limited to the ETA-funded grants and the cost categories/activities as identified in the regulations for each program. These are the minimum number of final cost objectives that ETA-funded entities must establish to meet the Federal reporting requirements. A discussion of the reporting requirements is contained in Chapter II-9, *Financial Reporting*, of this TAG. Cost classification is discussed in Chapter II-5, *Cost Classification*.

ETA-funded entities may choose or be required to establish additional final cost objectives for internal reporting or other non-Federal purposes, such as reporting costs by individual participant/program activities or by contract budget line items. The basic guidelines on cost allocation apply to these additional cost objectives as well.

Measuring Benefit

Measuring benefit is the critical requirement and central task to be performed in allocating costs. Throughout this chapter, the requirement is stressed that costs are allocable to a particular cost objective to the extent of benefits received by that cost objective. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective.

For a direct cost to be assignable in its entirety to a particular cost objective, the cost objective must receive the full benefit from the goods, services, activities, or effort that make up

that cost. In this instance, measuring benefit entails no more than identifying the full cost of the activity and assigning it to the correct cost objective.

Example: The staff costs associated with performing job development functions for the INA program are directly assignable to the cost category of Employment Services. That cost objective receives the full benefit of the cost of the job development activity.

Very often, however, a cost benefits more than one cost objective, so that any single cost objective receives only partial benefit from the cost incurred. Thus, the relative benefit received by each cost objective must be measured.

Example: If the job development staff in the above example also performed duties related to case management at the same time, the costs would benefit more than one cost category (Employment Services and Other Program Services) and, therefore, must be prorated among the benefiting cost categories. To determine each category's share of the cost, an allocation method must be identified that measures each category's share of the total benefit.

It is possible and preferable in some cases to directly assign the correct portion of shared costs to each cost objective. For example, the staff in the above example could record the time spent performing each function and distribute the costs accordingly.

However, disproportionate effort may be required to directly assign each segment of the total cost to the benefiting cost objective. When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. The allocation base is the mechanism used to allocate the pooled costs to final cost objectives and is discussed later in this chapter. Using the above example, instead of staff recording time spent by activity, the organization could use the relative number of participants in each activity or some other equitable basis for measuring benefit to each program. Care should be taken to ensure that the basis chosen does not distort the results and that the basis is appropriate to the cost objectives receiving the costs. **Caution:** For pooled costs, the cost elements that make up the pool must be scrutinized to ensure that all costs are allowable to the ETA-funded grant. Costs that are not allowable must be removed from the pool before the pooled costs are allocated to ETA cost objectives.

Example: A nonprofit organization charges costs of the director to an administrative pool. Part of the director's duties is fund raising, which is an unallowable cost under the cost principles of 2 CFR Part 230, Appendix B. That portion of the director's salary attributable to fund-raising activities would have to be excluded from the pool prior to allocation to the program. In this example, the pool would need to be allocated twice (in total to all non-Federal fund sources and as modified to Federal fund sources) and care taken that all funding sources receive their fair share of the pooled costs. The fund-raising costs would also need to bear a portion of the indirect costs as applicable.

When the Federal grant does not use or derives no benefit from the cost of an activity, service, product, or effort, then the associated cost cannot be charged to any ETA-funded cost objective. A cost must benefit (be allocable to) an ETA-funded cost objective to be an allowable cost under the ETA-funded program.

Consistent Treatment

For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned accordingly. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

Example: A director has administrative responsibility for a WIA-funded youth program and non-ETA-funded programs and also spends four hours a week teaching a class to youth participants on work skills. For the 36 hours of general administrative time, it would not meet the standard of consistent treatment to simultaneously charge a portion of the director's time as a direct cost to WIA and as an indirect cost to the non-ETA funded program, since the same type of cost (the administrative cost of the director) should be treated the same in both programs. However, the four hours of teaching time can be charged directly to WIA regardless of how the administrative costs were charged, since the training costs were not incurred for the same purpose as the administrative costs.

Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. [2 CFR Part 225]

COST POOLS

Many types of cost pools are acceptable if established and managed properly in the entity's accounting system. Examples include:

- Indirect cost pools
- Intake cost pools
- Administrative cost pools
- Supplies expense pools
- Other combinations of costs that are similar in nature and are shared among several cost objectives.

Consider the following when developing cost pools:

- **Written Cost Allocation Plan.** The cost pool should be described and documented in a written CAP that is used in allocating all allocable direct costs within each program to the appropriate program activity and cost category. CAPs are discussed in a later section of this chapter.
- **Combined Administrative Costs.** Shared administrative costs can be combined with any general indirect administrative costs and allocated using an appropriate allocation methodology or base.
- **Personnel Services.** Personnel services costs (salary and fringe benefits) of internal staff who spend a portion of their time in administrative and a portion of their time in allowable participant services functions can be individually distributed among the respective cost categories using staff time records or other verifiable means. A supporting time record that prorates the time between two or more functions is recommended. Time records should include hours spent on each cost objective. A position description alone is insufficient documentation.
- **Nonpersonnel Services.** Nonpersonnel service costs (costs such as supplies associated with staff usage) that benefit more than one cost objective can be allocated to more than one cost objective. Such allocations must be based on an appropriate allocation methodology.

Caution: Costs that may be pooled are limited to shared and indirect costs. Non-shared direct costs should not be pooled but rather should be directly charged to the benefiting cost objective. Only actual, not budgeted, costs may be pooled and distributed to the various funding titles. Costs incurred based on an indirect cost rate may be included in the appropriate administrative cost pools for allocation.

The allocation of cost pools based on benefits received should not be burdensome once the methodology is developed. Where a cost pool is used, the expenditures must be distributed among the various funding sources for reporting purposes. The method of allocation should be consistent with the guidelines addressed in other sections of this guide.

Types of Pools

Administrative Cost Pools. One of the benefits of an administrative cost pool is that, very often, administrative costs benefit multiple programs, and the effort of directly classifying portions of a cost to a number of programs is onerous. However, care should be taken that the allocation methodology chosen fairly distributes the costs to all affected funding sources. The allocation of administrative costs or any other pooled costs based on fund availability or percentage of funding source administrative dollars (contribution method) is generally not allowable. The allocation of pooled administrative costs based on each program's share of direct costs is the best method. The agency auditor should be contacted for technical assistance and concurrence on any methodology developed. The WIA allows for formula administrative funds to be expended at the state and local levels without regard to the funding stream, and costs to be reported without regard to the actual proportion of benefit received by the funding stream. For the purposes of cost classification, an administrative cost pool may be useful. For formula

administrative funds only, ETA requires the grantee to assign a portion of the administrative costs incurred back to the various funding streams for reporting purposes on the ETA 9130. There is no need to prepare a justification of the allocation methodology based on benefit unless they pool administrative costs for allocation to more than one Federal program.

However, a number of programs, including the TAA, SCSEP, and WIA Title ID programs, require administrative costs to be accounted for and reported separately. If the costs are not directly classified to the final cost objective, then an administrative cost pool would be beneficial. An adequate allocation methodology in compliance with the cost principles must be developed.

Other Cost Pools. Cost pools other than administrative can be established for any types of common costs when it is practical or necessary to pool such costs. The following example illustrates when cost pools could be established for other than administrative costs.

Example: A local area grantee has frontline intake staff members who conduct the initial intake for the ETA and other programs. An intake manager is responsible for overseeing and managing the client flow process, supervising the intake workers, and reporting to the deputy director.

All costs are unassignable, initially pooled, and charged temporarily to an intake-related cost pool account. These costs include the salary and fringe benefits of the line staff and the intake manager, materials, phones, and other related costs required to carry out the intake function.

Then, based on an approved formula that distributes costs based on benefits received by each program (such as the number of eligibility determinations completed for each program or the number of persons enrolled during the period), the costs are charged back to the appropriate programs.

Cost Pool Management

Cost pools reduce some of the burden of tracking expenditures because they are vehicles for temporarily accumulating unassignable direct and indirect costs that later will be allocated to a particular program. As costs accrue, a formula based on the benefits received by each program dictates how these costs will be distributed and reported by program title/subtitle or cost category. This eliminates trying to assign all staff time and every expenditure by grant or title at the time it is incurred.

ALLOCATING PERSONNEL SERVICES COSTS

Amounts charged to ETA-funded programs for personnel services, regardless of whether treated as direct or indirect costs, must be based on payrolls documented and approved in accordance with the established practice of the employing entity. Payrolls should be supported by time and attendance or equivalent records for individual employees.

In general, time distribution records or other verifiable means will be used to document how personnel services costs are charged to cost objectives. Time sheets and/or time and attendance records alone, however, do not necessarily satisfy the time distribution requirements and grantees/subgrantees are urged to carefully review the requirements for documenting personnel services costs that are described in the OMB cost principles. 2 CFR Part 230, Appendix B, Item 8 describes the requirements that must be met to support personnel compensation costs for nonprofit agencies. 2 CFR Part 225, Appendix B, Item 8 describes the requirements for governmental grantees. Both circulars require that personnel compensation costs be supported by a time distribution system that includes personnel activity reports or periodic certifications. The method used to charge these costs to cost objectives, and the documentation needed to support the allocation of the costs, will vary by type of cost and how that cost is treated in the accounting system.

Daily Time Distribution Records

A time distribution system is a formal method for accumulating labor costs associated with specific programs. Time distribution can be documented in a variety of ways. The most commonly accepted method is to record actual time spent on each cost objective during each working day (a time sheet). Other methods are also discussed below. The most appropriate method to use will depend on the circumstances in each case.

Direct Costs. When the personnel services cost of an individual or group of individuals is chargeable in full to a single cost objective, it is not necessary to maintain a daily time distribution record for that staff person. Other documentation should be available to support the claim that the person's activities and costs do not need to be allocated to more than one cost objective. Other documentation could include negative time distribution reporting, approved and written office policies and procedures, or other written forms of task assignment. **Note:** 2 CFR Part 225 requires a periodic certification (at least semi-annually) that the employee worked solely on the grant being charged. A job description will not suffice for the required certification.

Example: The agency director's time is spent entirely on administrative activities and can be charged as a direct cost to the Administrative Cost category without daily time distribution records. The job description is a likely form of documentation in this instance, supplemented by the periodic certification required by 2 CFR Part 225 or the personnel activity reports required by 2 CFR Part 230. However, the allocation of the administrative cost across programs would have to be documented in a separate manner.

Shared Costs. Salaries and wages of many employees are chargeable to more than one grant or cost category. Daily time distribution records, or some acceptable method of time sampling as discussed below, are the most common forms of documentation used in this situation. The method used must accurately reflect the actual time spent on each activity by each employee. Budget estimates or other distributions determined before the services are performed cannot be used to support charges to an ETA-funded program.

For staff members who maintain daily time distribution records, there are periods during the day or within the pay period when it is difficult to associate time worked with a specific cost objective. This is the case when a person is attending a general staff meeting or is on sick or vacation leave. In these instances, the recommended method of allocation is the use of direct hours charged to each cost objective as the basis for allocating the other time that is spent on general activities, provided there are a sufficient number of direct hours to establish an adequate base.

Example: During the 80-hour, two-week pay period, a staff person worked 35 hours on intake and case management activities (ICM), 35 hours on administrative activities (ADM), and took 10 hours of leave. The 10 hours of leave are shown on the chart as general hours and can be allocated among the cost categories as follows:

	ICM	ADM	General	Total
Hours charged	35	35	10	80
Hours worked	35	35	0	70
% of total hours worked	50	50	0	—
Share of general hours	5	5	—	—
Total hours allocated	40	40	0	80

Nonpersonnel Services Costs

Nonpersonnel services costs, when directly associated with time worked by the recipient's or subrecipient's staff, may also be allocated to the benefiting cost objectives based on documented distributions of actual time worked. These costs could include space costs, utilities, building maintenance, supplies, and other such costs correlated with staff usage. To use time distribution as the basis for allocation of nonpersonnel services cost, time worked must be an equitable measure of the benefit derived from nonpersonnel services costs.

Example: Desktop supplies are stored centrally and used by all staff in performing their jobs. It is reasonable to conclude that the supplies are used in the same manner and for the same purpose as the time spent by staff while using the supplies. It is acceptable to use time distribution as the basis for allocating the cost of desktop supplies to various cost categories.

Other Methods of Directly Charging Time

This section discusses two methods of directly charging time as possible alternatives to continuous time distribution. They fall into the general categories of time sampling systems and non-time-based measures. The Cost Principles at 2 CFR Part 225 and Part 230 require Federal cognizant agency approval of any time distribution system that does not rely on daily time distribution records (usually a time sheet). If an organization does not have a Federal cognizant agency, it must carefully document the method used to charge time and how that method complies with the requirements found in the circulars. Examples of the type of documentation may be found in the discussions contained in Attachment II-8-1.

Time Sampling. A variety of work sampling and work measurement techniques is explained in greater detail in Attachment II-8-1 to this chapter, including

- Random Time Sampling
- Systematic Work Sampling
- Stratified Work Sampling
- Worker Self-Recorded Work Sampling
- Work Measurement-Time Log Systems.

Additional guidance on standards for time sampling systems is provided in 2 CFR Part 225, which contains the Federal cost principles for governmental organizations. The standard critical to each time sampling system discussed in this TAG is that the sampling method used must be statistically valid.

Measures of Effort Other Than Time. In some limited situations and for certain types of staff work, the cost of staff time can be allocated on a basis other than time distribution. This is most often done when some quantitative measure, such as units of work performed, direct expenditures, or participants served, provides an equitable basis for allocating staff time and related costs. The methods (such as transaction counts or units of work) used to allocate costs should be documented and maintained to support the basis of the allocation.

A common example is when personnel services costs are combined with other costs from the same cost category into a larger pool of costs, which is then allocated to final cost objectives based on direct expenditures or a basis other than time. This approach is often used for administrative cost pools.

Another application is when staff time and related costs associated with processing vouchers for payment are allocated based on a transaction count.

ALLOCATION BASES

When costs are pooled instead of being directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit. The approximate measure of benefit is the allocation base. An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.

Many different types of bases can be used in allocating costs. The most appropriate base will vary with the circumstances prevailing in each instance. An organization is likely to use several different bases for allocating different types of costs. Acceptable methods for distributing pooled costs may vary by type of organization, functional units or levels within an organization, types of cost to be allocated, and cost category. The basis used to allocate a particular type of cost should be used consistently over time and be described in the CAP. The development of CAPs is discussed further in this chapter.

Acceptable Allocation Bases

An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit and if it results in an equitable distribution of the costs of services rendered or goods provided. Each base should be considered on its own merits as to the purpose for using it and the degree of equity it will achieve in allocating joint costs. In selecting a method, the additional effort and expense required to achieve a greater degree of accuracy should be considered. General criteria that should be used in selecting an allocation base include the following:

- **Minimal Distortion.** The base should distribute costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.

Example: It is appropriate to allocate pooled intake costs based on the proportionate number of eligible applicants per program, since there is a direct relationship between incurring intake costs and determining eligibility. It also is appropriate to use the number of new enrollments by program as the basis for allocating intake costs when enrollments provide an equitable measure of effort, since the benefit of intake is the eventual enrollment of participants into the programs.

By contrast, it is much less appropriate to use job development costs as the basis for allocating pooled intake costs since there is a very limited relationship, and no causal relationship, between the base and the type of costs in the pool. The results are likely to be distorted when using this base for allocating this type of costs.

- **General Acceptability.** The base should be generally accepted and in conformance with GAAP. For example, it should be consistently applied over time. The base should also be drawn from the same period during which the costs to be allocated have been incurred.

Example: It is not appropriate to change the base for allocating pooled administrative costs from quarter to quarter, such as using direct program expenditures in the first quarter, number of participants served in the second quarter, and time distribution in the third quarter. It is also not appropriate to use last year's participant data as the basis for allocating this year's expenditures.

- **Represents Actual Cost or Effort Expended.** The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity. **Note:** Initial allocation methodologies for shared One-Stop costs are addressed in Chapter I-3, *Proportionate Share and Cost Allocation*.

Example: Pooled administrative costs may not be allocated to grants or subgrants on the basis of the proportionate amount of funds available from each

funding source. It is generally not appropriate to use the relative amount of funds required to be spent as the basis for allocating this pool of costs since budgets are not a measure of actual activity or effort.

- **Timely Management Control.** The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.

Example: If an organization uses lower-tier subrecipient expenditure or participant data as the base for allocating some of its organization-wide costs, it risks having the data used for allocation skewed by a poorly performing subrecipient. The organization also becomes dependent on timely reporting by its subrecipients to allocate some of its own costs. It would be better for the organization to use a base that is within the direct control of the organization's management.

- **Consistency with Variations in Funding.** The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base includes factors that are affected by variations in funding, it will produce distorted results.

Example: It is not appropriate to allocate costs using a basis that does not include all benefiting funding received during the year. If an organization operates a state-funded summer work experience program, then the basis for allocating case management costs would need to reflect changes in the mix of activities during the summer period, or the distribution of costs may not be equitable.

- **Materiality of Costs Involved.** The time and expense spent in developing the base should not be greater than justified by the materiality of the costs to be allocated. In other words, the grantee should not spend more on obtaining the information needed to allocate pooled costs than the dollars in the pool warrant. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

Example: It is not appropriate to fold a larger pool of costs, such as administrative staff costs, into another unrelated pool of costs rather than allocate the costs separately or to distribute staff costs equally among the programs. For pooled administrative staff costs, a base should be used that more accurately measures benefit to each program, such as direct time charges per program.

- **Practicality and Cost of Using the Base.** The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, a data base that already exists in the financial or participant record keeping and reporting systems

should be used rather than create a separate data base to be used only for allocating costs.

Example: It is appropriate and more efficient, without unduly sacrificing accuracy, to allocate participant transportation costs using current enrollment data that is already available, rather than creating a separate data base on the exact number of participants receiving transportation assistance by type of participant. On the other hand, if the transportation costs were part of an Individual Training Account (ITA), then the basis for distribution might need to be the number of participants whose ITAs included transportation.

What Is the Best Base?

There is no single answer to that question. The answer varies by type of organization, levels within an organization, organizational structure, method of program delivery, accounting and participant reporting systems, types of costs included in the pool, and availability of other types of data to use as a base. The general guidelines presented here can be used to help with decision-making.

When choosing among available bases, a base should be chosen that is more directly related to, and the better measure of, the costs being allocated and the benefits being received.

Example: Using the number of vouchers processed as the basis for allocating the costs of financial services is preferable to using the dollar value of those vouchers. The work performed in processing each voucher is fairly standard for each unit of work, regardless of the dollar value of the vouchers. As a result, the cost/benefit of the service is a function of the quantity of work units performed.

Subrecipients are encouraged to develop and use appropriate expenditure bases (such as salaries and fringe benefits and total direct costs) and participant bases (such as number of participants enrolled) to allocate joint costs. Where a subrecipient conducts several human services programs with multiple funding sources and uses an automated accounting system, an appropriate expenditure base is usually one that reflects time spent or participants served. This is also a more easily managed base than using multiple bases or a base dependent upon additional sources of information.

Possible Bases for Allocation

Some possible bases for allocation are shown on the chart on the following page. These are suggested bases only, and grantees are cautioned to review these bases for applicability to their programs. In addition, any base used for allocation of costs must comply with the requirements for an allowable base.

Possible Bases for Allocation

Accounting	Number of transactions; direct labor hours; allowable survey methods
Auditing	Direct audit hours; expenditures audited
Budgeting	Direct labor hours
Consumable supplies	Total direct costs; direct labor hours
Counselor	Direct labor hours; number of participants counseled
Data processing	System usage; direct labor hours
Disbursing service	Number of checks issued; direct labor hours
Fidelity bond	Number of bonded employees
Freight	Number of items shipped; cost of goods
Health services	Number of employees
Intake	Number of eligible participants; current period enrollments
Legal services	Direct hours
Motor pool costs	Miles driven; days used
Office machines and equipment maintenance	Direct machine hours; direct labor hours
Office space	Square feet of space occupied; staff salary distribution
Payroll services	Number of employees
Personnel services	Number of employees
Postage	Direct usage; acceptable survey methods
Printing/reproduction	Direct labor hours; job basis; pages printed
Procurement service	Number of transactions processed; direct hours of purchasing agent's time
Retirement system administration	Payroll; number of employees contributing
Telephone	Number of instruments; staff salary distribution
Travel	Mileage; actual expenses; direct labor hours
Utilities	Square feet of space occupied; staff salary distribution

Unacceptable Allocation Bases

In general, unacceptable allocation bases are those that do not meet the general guidelines discussed above. Unacceptable bases are those that

- Distort the final results
- Do not represent actual effort or actual expenditures
- Are not used consistently over time and with variations in funding
- Do not have an integral relationship to the types of costs being allocated.

Some commonly used bases that fall into this unacceptable category include the use of

- Relative funds available to allocate unassigned direct costs
- Job descriptions to allocate staff costs
- Fixed or predetermined number of staff hours assigned to an activity to allocate staff costs
- Planned participant levels to allocate participant-related costs
- Results from prior periods to allocate current period costs.

Bases developed from plans, budgets, or estimates usually cannot stand on their own as valid measures of benefit. They can be used only in very limited situations, such as when the results can be corroborated by, or later adjusted for, the results obtained by using an acceptable base. This requires that the base be verified as able to produce an equitable distribution of costs.

Example: A work experience program is jointly funded by the state and the WIA Title IB Youth program. Each funding source plans to provide 10 participants. Start-up costs are incurred and billed to the funding sources before all participants are enrolled. It is appropriate to use planned activity levels as the basis for allocating these costs since full enrollment by both funding sources is expected. However, any deviation from the plan must later be adjusted using actual enrollment data.

Common Errors

A common error in choosing a base is to use a plan, budget, or other estimate of future effort or cost. In most circumstances, this type of base is not acceptable because it does not measure actual activity, effort, or cost, and too often, later adjustments based on actual data are not made. In most instances, the most reliable measure of the amount of the cost incurred, the effort expended, and the benefit received can occur only when the activity is actually performed. Some grantees estimate (in their position descriptions, organizational charts, or other documents) the percentage of time their director or other staff members will be involved in the various ETA-funded programs. This estimate is useful for planning purposes but must eventually be supported by documentation of actual involvement in each program. Costs charged to the program based on the estimates will need to be adjusted to reflect actual time spent on ETA-funded activities. It is also common for grantees to determine the percentage of time their staffs

will be involved in the various programs. Occasionally, this determination results in a preassigned number of hours available for ETA-funded activities. Staffs are instructed to charge ETA and other programs according to the established hours. Again, this predetermination is useful for budget purposes; however, any costs charged to the ETA-funded program must be adjusted as necessary to reflect actual time spent on benefiting program activities.

We repeat the standard caution that a particular basis may work in some circumstances and not in others, and that the ultimate test of appropriateness is whether the basis used results in an equitable distribution of costs that reflects the level of effort or benefit received by the various cost objectives.

COST ALLOCATION PLANS

A CAP is a document that identifies allowable indirect and direct costs and is used to accumulate and distribute such costs. The CAP also identifies the allocation methods used for distributing the costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. All costs included in the plan must be supported by formal accounting records to substantiate the propriety of the eventual charges.

Types of Allocation Plans

A distinction is made between two types of CAPs: the plans needed to allocate organization-wide and central services costs to individual departments within the organization (indirect cost plan), and the plans needed to allocate costs within a department to grants and other final cost objectives (CAP), as described below.

Indirect Cost Plan. The indirect cost plan identifies and distributes the costs of services provided by support organizations (such as personnel, treasury, security, and legal) to departments or units administering Federal grants or contracts. At the state level, it is referred to as the State-Wide Cost Allocation Plan (SWCAP). Indirect cost/central service CAPs are usually approved by a cognizant Federal agency. Similar types of indirect CAPs for central services are also common to local units of government and to larger nonprofit organizations. Indirect cost plans are discussed further in a later section.

Cost Allocation Plan of the Department/Entity Administering ETA-Funded Programs. The second type of CAP distributes the administrative or other joint costs incurred within a performing (subrecipient or contractor) department or unit, together with the service costs allocated to it under the indirect cost proposal, to all work performed by that department or unit. This type of plan is developed by the unit that directly operates the ETA-funded program to allocate costs between its ETA-funded and non-ETA-funded programs and between cost categories within each of the ETA-funded programs. This type of plan is commonly referred to as an organizational or departmental CAP. Another example of this type of CAP is the plan used to allocate the shared costs of the One-Stop among the participating partners. This CAP is discussed in Chapter I-3, *Proportionate Share and Cost Allocation*.

Contents of the Organizational or Departmental Cost Allocation Plan

The CAP should include at least the following elements:

- Organization chart that identifies all departments, types of services provided, and ETA- and non-ETA-funded staff functions
- Description of the types of services provided and their relevance to ETA-funded projects (generally called a Statement of Function and Benefit). This would include all ETA- and non-ETA-funded revenue sources and cost objectives.
- Copy of official financial statements or budgets
- Expense items included in the cost of the services. This would include all joint or pooled costs needing to be allocated (such as staff whose work benefits more than one cost objective, cost pools established for administrative costs and other types of pooled costs, and all other costs that cannot be readily assigned to a single cost objective).
- Description of the methods used in distributing the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of joint or pooled cost and the documentation for supporting each basis for allocation.
- Certification by an authorized (sub)recipient official that the plan has been prepared in accordance with WIA or other authorizing legislation and regulations and state or other applicable requirements.

For ETA-funded entities that are charged indirect or central services costs, the CAP should also include

- Identification of the departments rendering the service costs to benefiting departments (summary CAP)
- Summary schedule of the allocations of central service costs to operating departments.

The following suggestions should also be considered when developing a CAP:

- **Keep it simple.** The simplest and least costly method possible should be used, based on a measure of relative benefit received, that will produce an equitable allocation of costs to programs and cost categories.
- **Make it replicable.** The process that is developed must be able to be duplicated at any time and be able to accommodate changes in the organization or funding levels.
- **Simplify the organizational structure.** The organizational structure of the CAP should be made no more complicated than necessary to allocate costs.
- **Consider what is required.** The required structure and capabilities of the accounting system must be considered in designing an operable cost allocation process.

- **Make changes prudently.** Changes in an organization's CAP that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, should receive the necessary prior approvals, and should be justified and well documented.

Value of Cost Allocation Plans

In addition to documenting the allocation of costs and the need for prior approvals, the CAP has other benefits and advantages for the organization, as listed below:

- **As a management tool,** provides a clear and concise method to develop budgets and prepare plans
- **Results in the equitable sharing of indirect costs** from all programs and activities, beginning with their appropriate recognition in the budget process
- **Eliminates arbitrary methods** sometimes used to account for all costs as direct costs in order to achieve full reimbursement
- **Establishes creditable fiscal accountability practices** that recognize indirect and shared costs as a necessary cost of program delivery
- **Establishes financial management standards and practices** that may be applied uniformly with all grantee agencies through the accounting and budgeting process
- **Creates financial management structures** that recognize that costs relative to programs or units of service consist of both direct and indirect costs
- **Promotes the use of up-to-date, integrated grantee accounting systems and procedures** within the organization, so that shared and indirect costs can be identified and allocated across all programs and activities
- **Meets Federal cost principles and standards** that require approved plans as a prerequisite to claiming reimbursement of indirect costs
- **Improves and standardizes** fiscal management policies and practices.

General Indirect Costs

General indirect, i.e., overhead/general and administrative (G&A), costs normally should be charged to the Administration Cost category, except that specific costs charged to an overhead or indirect cost pool that can be identified directly with an ETA-funded cost objective/category other than Administration may be charged to the ETA-funded cost objective/category directly benefited, as described and justified in the CAP. Under WIA, some of the costs normally included in general indirect costs may be classified as program costs rather than administrative costs. Further guidance is found in Chapter II-5, *Cost Classification*.

Governmental Grantees

Responsibility for approving the CAPs of most units of local government has been assigned by OMB to cognizant Federal agencies. Some LWIB grantees, especially those that are governmental agencies, have indirect cost rates that are already approved by a Federal agency.

The state or the unit of local government should request an agency review of the indirect rate if questions arise on the application of the indirect rate to the ETA-funded programs.

Nonprofit Agencies

In some cases, agencies do not have indirect cost rates but wish to establish a rate to facilitate charging indirect costs to their various Federal funding sources. 2 CFR Part 230 *Cost Principles for Nonprofit Organizations*, applies to determining indirect cost rates for nonprofit organizations. For assistance in preparing indirect cost rate proposals, nonprofit organizations should use the *Indirect Cost Determination Guide* published by the DOL Office of the Assistant Secretary for Administration and Management, Office of Cost Determination. Indirect cost rate proposals are required when a nonprofit organization has more than one source of funding and elects to recover indirect costs as well as the direct costs for meeting grant or contract obligations. Where a nonprofit subrecipient is required to obtain an indirect cost rate, the awarding agency should provide technical assistance and may wish to review and approve the indirect cost rate.

ETA Subrecipients

State and local governmental agencies that are not staff to the LWIB or the recipient of local allocations, but that operate ETA-funded programs as subrecipients, often have indirect cost rates already approved by a Federal agency. These rates should be reviewed by the awarding agency to determine their appropriateness for ETA-funded programs. Any rate approved by the awarding agency should not exceed the rate approved by the Federal cognizant agency for Federal grants.

ALTERNATIVE TIME DISTRIBUTION

All OMB cost principles treat the costs of personnel wages and fringe benefits and require that such costs be based on a time distribution system. In a standard time distribution system, time sheets are usually used to record the amount of time spent on organization-sponsored (and Federally funded) activities. OMB Cost Principles at 2 CFR Parts 225 and 230 further require that time distribution include the use of a “personnel activity report”. In addition to standard time distribution, the circulars authorize the use of alternative systems, subject to compliance with certain conditions.

Substitute systems may include random sampling, case counts, client counts, transaction counts, or other quantifiable measures of employee effort for a time period. Sampling and other measures should take into account relative effort and intensity of service provided to different categories of clients served. A substitute system must meet acceptable statistical sampling standards, including the following:

- The universe from which a sample of employees is taken must include all of the employees whose salaries and wages are to be allocated by means of the sampling.

- The entire time period for which salaries and wages are to be charged to a specific Federal grant must be covered.
- The results must be statistically valid and applied only to the time period to which the sample may be validly extrapolated.
- The results of the sampling system must be updated periodically to reflect changes in the measures used, such as case counts or client counts.
- The recipient must use a valid and uniform system for converting the measure of employee effort (such as case counts, client counts) into time.

2 CFR Parts 225 and 230 require that an organization wishing to utilize alternative time distribution systems receive approval of that system from their cognizant Federal agency. Organizations that do not have a cognizant agency approval should obtain a certification from an independent auditor or auditing firm that the system meets the standards required for approval. Attachment II-8-1 contains a discussion of alternative time distribution systems and the documentation that would be required for approval. Attachment II-8-2 is a sample personnel activity report. This sample report is taken from guidance provided by the U.S. Department of Education (ED), titled *Indirect Cost Determination Guidance for State and Local Government Agencies* (1997). This guidance also contains an example of one such substitute system that would be approved for use in ED programs.

Alternative Time Distribution Systems

The use of these methods, and the documentation to support their use, may be submitted to the cognizant Federal agency for approval should an organization wish to use an alternative time distribution system. Those organizations without a cognizant agency should maintain the documentation described in these standards for review by the awarding agency and auditors as required.

TIME SHEETS AND CONTINUOUS TIME DISTRIBUTION

A time distribution system is a formal methodology used to accumulate labor costs associated with specific programs. Time sheets are generally used to record the amount of time each employee spends working on the various cost objectives.

Time Distribution in a Seamless Service Delivery System

Some agencies may have difficulty managing a conventional time distribution system in a seamless service delivery system environment. Substitute systems are available for meeting time distribution record requirements.

Instead of time distribution records such as a time sheet, recipients and subrecipients may use a substitute system for allocating salaries and wages for a particular time period. The substitute system may be used only if, before charging or allocating the costs, the entity obtains approval of such a system from its cognizant Federal agency. The standards listed below must be met for that approval to be granted. Organizations without a cognizant Federal agency should obtain a certification from an independent public accounting firm or another qualified auditor that meets the standards of independence in the General Accounting Office Government Auditing Standards that the system meets the following standards:

- The system is consistent with GAAP.
- The system distributes costs to various programs and cost objectives in a manner that is equitable to the government and to the programs or cost objectives in question in accordance with OMB Cost Principles at 2 CFR Parts 225 or 230 , and considers the benefit actually derived by each program or cost objective.
- The certification or approved system, together with its supporting documentation, must describe the system employed and be available for inspection by the DOL.
- The applicable record retention requirement applies to the certification and the supporting documentation upon which the certification and/or use of the system was based.

- Substitute systems may include random sampling, client counts, transaction counts, or other quantifiable measures of employee effort for a specific time period. Sampling and other measures should take into account relative effort and intensity of service provided to different categories of clients served.
- A substitute system that uses sampling methods may be certified to satisfy the requirements of this paragraph if it meets acceptable statistical sampling standards, including the following:
 - The universe from which a sample of employees is taken must include all of the employees whose salaries and wages are to be allocated by means of the sampling.
 - The entire time period for which salaries and wages are to be charged to a Federal grant involved must be covered.
 - The results must be statistically valid and applied only to the time period to which the sample may be validly extrapolated.
 - The results of the sampling system must be periodically updated to reflect changes in the measures used, such as case counts or client counts.
 - The recipient must use a valid and uniform system for converting the measure of employee effort (such as case counts, client counts) into time.

This certification does not constitute formal approval by a Federal awarding agency. If an organization receives assistance in developing the documentation for a substitute system or the above referenced certification, the auditing firm or qualified auditor that has provided this assistance for a substitute system may not also audit the system in question in connection with an organization-wide or single audit under OMB Circular A-133.

WORK SAMPLING AND WORK MEASUREMENT

Work sampling and work measurement are essentially time management. There are variations in the techniques and methods for conducting a work sampling study. This guide identifies certain basic rules to simplify the time management process.

Random Time Sampling

Random time sampling (RTS) is an objective method of estimating the amount of time spent during a given period by employees on their different work activities, programs, projects, or services. It is a technique of selecting random moments of time during the work period to observe and record the specific task or work activity being performed by each employee (or a sample of employees) at those random moments. It works like a camera that takes a snapshot of the situation at the instant of the snap. From these recordings made over a reasonable period of time, the percentage of all tallies that were recorded for each activity can be computed. When these percentages are multiplied by the total number of paid work hours (obtained from the payroll), estimates are derived of the number of hours spent on each activity.

Observer work sampling is by far the best known and most common of random time sampling techniques used. Using this technique, an observer makes rounds of the work area at random intervals and records what he or she sees. Each tally pertaining to each individual is an “observation.” The route for making the rounds through an office or work area, and the sequence of checking each employee, may also be randomized.

At random moments of time throughout each day of the study period, a tally record is made of the activity on which each participating employee is working at that moment. One person serves as a recorder to make the tally, often with the help of the person being observed. After a number of days, these tallies can cumulate to a sizable number, so that the percentage of the total cumulated tallies that is associated with each activity approaches the true proportion of the whole organization’s time spent on each activity. By obtaining the total paid time of the organization from the payroll records, a simple basis is provided for estimating the amount of time devoted to each activity, namely, by multiplying the activity percentages derived from the sample by the known total paid time.

RTS operates under the principles of probability and random sampling. Under these principles, a relatively small number of observations, provided they are made at random moments of time, will tend to reproduce the actual frequency distribution of the entire work time. The larger the number of random observations, the more closely the results will reflect the true percentage of time spent on each activity. Statistical formulas provide a basis for measuring the reliability of the time estimates using the total number of observations. Conversely, formulas exist for determining the number of observations that should be made to achieve a desired level of reliability for the resulting estimates.

Systematic Work Sampling

This technique obtains observations at evenly spaced or “systematic” intervals rather than at random intervals. This is, of course, contrary to the usual insistence that accuracy depends heavily on randomness. Some researchers maintain that, under certain conditions, sampling at regularly spaced intervals will give results that are statistically equal to or better than those obtained by sampling on a random basis. However, the exact nature of these “certain conditions” may be quite complex to analyze, and such analysis is best left to a skilled statistician.

Stratified Work Sampling

Stratified work sampling is a fairly common and useful variant, and, when used properly by a skilled technician, may be more accurate than simple random sampling. Stratified sampling consists of drawing a sample from two or more homogeneous groups or subgroups out of the total universe under study. It is a process of subdividing to get appropriate representation, particularly when it is suspected that the conditions or categories to be sampled are not constant, or in some manner are appreciably different in the various subgroups or strata under study. By separately random sampling subgroups with fairly similar characteristics, we get a truer picture of the whole than by random sampling from all groups combined.

Worker Self-Recorded Work Sampling

The self-recording technique allows each employee to record observations at a given signal, such as a bell or flicking lights. Since the intervals are relatively few in number, possibly 10 a day, and the recordings are made instantaneously, a comparatively high degree of objectivity is preserved, with minor irritation from interruption to work. Each worker merely makes a simple tally on a preprinted slip or form the instant the signal is given. Tally slips for each random interval should be supplied immediately after each interval to ensure that marking tallies is not postponed and to enhance objectivity.

Work Measurement Time Log Systems

This measurement technique requires the use of a tool known as a time ladder. The purpose of the time ladder is to determine, in detail, the amount of time involved with performing various types of functions or services. Time ladders normally consist of three columns. One column has preprinted time information in increments of minutes. The second column is reserved to record the total units of time (minutes) worked on a specific function. The third column is used to record the code of the function. Time codes are developed that relate to the product or activity employees work on (such as intake, assessment, job search). All possible activities are assigned a code, including breaks. In general, employees participating in the study are expected to record the amount of time devoted to a particular product or activity by recording the code within the particular time period they worked on that product or activity. For example, if the code for intake was IN and an individual worked on intake from 8:00 a.m. until 9:45 a.m., he or she would impose a line across the Code column on the time ladder at 8:00 a.m. and impose another line at the time he or she stopped working on IN, which was at 9:45 a.m. The person responsible for tabulating the results could easily determine that 1 hour and 45 minutes was spent working on intake.

When developing a matrix to record the result of the work measurement exercise, care should be taken to ensure that the matrix is representative of activities. Subsequent to the development of the matrix, if there is an activity or position that cannot be identified with a particular cost objective or program (receptionist, intake worker), consideration should be given to excluding the position from the work measurement exercise and treating the activity as an “indirect” or shared work activity. The cumulative results at the end of the study period that are used to allocate time to specific programs are also used to allocate the “shared” time. The costs associated with the receptionist position would therefore be allocated utilizing the data base resulting from the review of all other work activity. The allocation of the shared or indirect time would be dependent on the time-based percentages resulting from the cumulative time measurement study.

Initial steps in implementing work measurement include the following:

- (1) Analyze functions performed at the service delivery site and identify all activities.
- (2) Identify programs served by the activities.

- (3) Develop a master matrix and user instructions to incorporate the data identified in Steps 1 and 2.
- (4) Develop codes to be used to record time usage. Where practical, time codes should be program-specific. Where program delineations cannot be made, time codes will be activity-specific only.
- (5) Identify specific counts (volume of work) that will be needed to calculate time distribution.
- (6) Develop/prepare instructions specific to the needs of the work measurement study.
- (7) Select proper time period to ensure statistical validity.
- (8) Determine staffing levels required to conduct the study and make assignments. This includes training.
- (9) Train all staff involved in the study, including managers.

Sample Personnel Activity Report

Period Ending (1) _____ Fiscal Year _____

Name _____ Division or Department _____

<u>Accounting Description</u>	<u>Account Number</u>	<u>Percent of Effort</u>
Project A		30
B		30
C		30
Administration		5
Cost Sharing		5
	Total Effort	100%

I hereby certify that this report is an after-the-fact determination of actual effort expended for the period indicated and I have full knowledge of 100% of these activities.

_____	_____	(2) _____	_____
Employee	Date	Responsible Official	Date

(1) Report must be prepared at least monthly and coincide with one or more pay periods.

(2) Supervisory official having first-hand knowledge of the activity performed by the employee.

Source: Indirect Cost Determination Guidance for State and Local Governments, U.S. Department of Education (1997)

Chapter II-9

Financial Reporting

INTRODUCTION

This chapter provides a discussion of some key financial reporting terms and the required Federal financial reporting formats for the ETA grant programs addressed in this TAG. Along with the Federal reporting requirements, the chapter provides guidance on subrecipient reporting, briefly addresses the WIA annual report requirements and some additional reporting considerations.

This chapter contains the following sections:

- Federal Reporting Requirements
- Subrecipient Reports
- Annual WIA Performance Progress Report
- Additional Reporting Considerations.
- Attachment II-9-1: TEGL 28-10
- Attachment II-9-2: U.S. DOL ETA Financial Report - ETA 9130

FEDERAL REPORTING REQUIREMENTS

Key Financial Reporting Terminology

Accurate financial reporting by grantees is imperative. For example, underreporting of expenditures in a given period may result in the false impression that the funding levels provided by Congress exceed current needs. This may contribute to the imposition of rescissions and reduced funding levels. Grantees have been inconsistent in applying definitions of key financial terms in preparing their quarterly financial reports, so on May 27, 2011, ETA released Training and Employment Guidance Letter (TEGL) 28-10, *Federal Financial Management and Reporting Definitions*, to clarify the definitions of common financial management terms. See Attachment II-1-1 for a copy of TEGL 28-10. Two critical terms are defined below.

Accrued Expenditures. ETA requires all grantees to report expenditures on a full accrual basis. According to 29 CFR 97.3, accrued expenditures mean the charges incurred by the grantee during a given period requiring the provision of funds for: goods and other tangible property received; services performed by employees, contractors, sub-grantees, subcontractors, and other payees; and other amounts becoming owed under programs for which no current

services or performance is required, such as annuities, insurance claims, and other benefit payments. In general, total accrued expenditures are the value of all costs incurred for goods and services received **regardless of whether the goods or services have been billed for or payment has been made.** Grantees using cash basis accounting must maintain accrual worksheets to capture the additional data and documentation required to report their expenditures on an accrual basis. Likewise, not all accrual accounting systems necessarily capture all accrued expenditures that should be reported to ETA, such as the cost of on-going training activities, and therefore these grantees may also need to develop worksheets to capture additional accruals that must be reported.

Obligations. Another term addressed in TEGL 28-10 is obligations. OMB Circular A-11 defines obligation as a binding agreement that will result in expenditure, immediately or in the future. In 29 CFR 97.3, obligation is defined as the amount of orders placed, contracts and subgrants awarded, good and services received, and similar transactions during a given period that will require payment by the grantee during the same or future period. In sum, obligation is a term that references actions where a legal commitment to pay exists. The obligation may occur at the time the services are rendered, or before services are rendered when a binding agreement has been entered into.

TEGL 28-10, based on existing government wide definitions, provides more information on accrued expenditures and obligations, including some common examples of each. TEGL 28-10 also discusses the terms disbursements and encumbrances.

ETA 9130 Financial Reporting Format

All ETA grantees are required to submit quarterly financial reports for each grant award they operate. Prior to 2007, grantees had been using a variety of forms for different programs; some with different reporting deadlines. Beginning with the quarter ending September 30, 2007, ETA began requiring the use of U.S. DOL ETA Financial Report Standard Form (SF) 9130 for all financial reporting. The ETA 9130 replaced the SF-269, ETA-9126, ETA-9076, ETA-9080, ETA-9099 and all other financial reporting formats used to report expenditures against grant awards. Implementation of the ETA 9130 also established a uniform financial reporting due date of 45 days after the end of the reporting quarter for all programs. These requirements were provided in TEGL 12-07 dated October 1, 2007. In December of 2009, OMB extended the use of the ETA 9130 form through November 30, 2012.

A link to the Basic ETA 9130 format and all the modified ETA 9130 formats and their instructions can be found at: http://www.doleta.gov/grants/financial_reporting.cfm. See Attachment II-9-2 for a chart that summarizes some of the major programs that use the Basic ETA 9130, a modified ETA 9130, and the additional expenditure data required.

WIA Title IB Programs

Formula and other direct grantees are required to report the financial results of WIA programs in accordance with the requirements set forth by the Secretary of Labor. These requirements were provided in TEGL 16-99 dated June 23, 2000. Financial reports are due no

later than 45 days after the end of the report quarter and 90 days after the expiration of fund availability or when all funds are expended, whichever comes first. Recipients are required to report accrued expenditures separately for each source of funds cumulatively from the inception of each grant. Each source of funds constitutes a separate grant with its own unique grant number. In order to properly report costs, states and other direct grant recipients must establish a subrecipient reporting system that allows them to incorporate costs at all levels of the system into the financial reports submitted to the ETA.

There is one Federally required report for WIA Title IB programs. The report has seven formats:

- Local Youth Program Activities
- Local Adult Program Activities
- Local Dislocated Worker Program Activities
- Statewide Youth
- Statewide Adult
- Statewide Dislocated Worker
- Statewide Rapid Response

Each of the seven formats is patterned after the Basic ETA 9130. Each format contains standard identifying information, funding year, and period covered by the report and requires grantees to report total Federal cash, Federal accrued expenditures and unobligated balance, recipient share (grantee match) and program income.

WIA Title IB programs require additional expenditure data. For example:

- Adult and Dislocated Worker reports: local area administrative expenditures, transfers of obligational authority between the Adult and Dislocated Worker programs (up to 20 percent) and real property proceeds expended.
- Youth Program Activities report: local area administrative expenditures, real property proceeds expended, outlays by in-school and out-of-school youth eligibility categories and outlays for summer employment opportunities.
- Statewide Youth, Adult, and Dislocated Worker reports: state administrative expenditures, real property proceeds expended and outlays from recaptured local area funds.
- Statewide Rapid Response reports: real property proceeds expended.

What the WIA Regulations Require

Section 185(d) of the Act requires that WIA recipients report outlays in accordance with instructions issued by the DOL.

The reporting requirements at 20 CFR 667.300 further amplify this requirement:

- 667.300(a) requires that states and other direct grant recipients must report financial, participant, and performance data in accordance with instructions issued by DOL/ETA. Reports shall be submitted no more frequently than quarterly within a time period specified in the reporting instructions.
- 667.300(b) states that a state or other direct grant recipient may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.
- 667.300(c) requires that financial reports shall be submitted to DOL by each grant recipient. Reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient shall develop accrual information through an analysis of the documentation on hand.
- 667.300(d) requires the reports to be submitted no later than 45 days after the end of each quarter. A final financial report is required 90 days after the expiration of a funding period or the termination of grant support.

In addition, 29 CFR 667.200(a)(5) requires that the addition method applies to program income earned by grantees and subgrantees. The reporting requirements reflect this requirement.

WIA Title ID Reports

Indian and Native American (INA) Program. The INA program uses a modified ETA 9130 format. The report format provides for identifying information (name of grantee, award number, etc.), source of funds, and reporting period. Similar to the Title IB report requirements, INAP grantees are required to report total Federal cash, Federal accrued expenditures (including administrative expenditures) and unobligated balance, recipient share (grantee match) and program income. For the INA program, expenditures are also required to be reported by the following categories:

- Employment Services
- Training Services
- Other Program Services.

As noted above, these requirements were provided in TEGl 12-07. A link to the

reporting format for the INAP program and the instructions can be found at: http://www.doleta.gov/grants/financial_reporting.cfm.

National Farmworker Jobs Program (NFJP). The reporting format required of NFJP grantees is similar to the reporting formats used in other WIA programs. The report format provides for identifying information, source of funds, and reporting period. NFJP grantees are required to report total Federal cash, Federal accrued expenditures (including administrative expenditures) and unobligated balance, recipient share (grantee match) and program income. NFJP grantees are also required to report expenditures by the following categories:

- Related Assistance
- Other Program Services.

Wagner-Peyser and Unemployment Insurance. Wagner-Peyser (Employment Service) and Unemployment Insurance (UI) grantees use a modified ETA 9130 as well. The report format provides for identifying information, source of funds, and reporting period. Wagner-Peyser and UI grantees are required to report total Federal cash, Federal accrued expenditures and unobligated balance, recipient share (grantee match) and program income. Administrative expenditures are not required to be reported. Wagner-Peyser and UI grantees are also required to report expenditures by the following category:

- Real property proceeds expended.

Trade Adjustment Assistance. Trade Adjustment Assistance (TAA) grantees are required to report the training, benefits and administrative activities of TAA grants on the Basic ETA 9130.

The format requires grantees to report accrued expenditures, total obligations, total Federal funds received, unobligated balances, commitments, the uncommitted balance, and additional obligational authority requested to be reported on a cumulative quarterly basis by source of funds. TAA grantees are required to report expenditures on two separate reports, each using the Basic ETA 9130. One report details program costs, including the costs for job search, relocation and training. The second report details the costs associated with administering the TAA program.

Senior Community Service Employment Program (SCSEP). The SCSEP program utilizes a modified ETA 9130 to report the financial activity of the grant. Reports are to be submitted on an accrual basis, cumulative from grant inception. SCSEP grantees are required to report total Federal cash, Federal accrued expenditures and unobligated balance, recipient share (grantee match) and program income

SCSEP grantees are also required to report expenditures in the following categories:

- Administrative – including expenditures at both the direct recipient level and the program operator level.

- Enrollee Wages and Fringe
- Other Enrollee Expenditures.

More information on these additional reporting elements can be found in the reporting instructions for SCSEP grantees (http://www.doleta.gov/grants/financial_reporting.cfm) and in Public Law 109-365, Older Americans Act Amendments of 2006, Sections 502 (c)(4) and 502 (c)(6)(A)(ii-v).

YouthBuild. YouthBuild grantees are required to report cash receipts, disbursements, expenditures (including administrative expenditures), obligations, matching funds, program income, and other federal funds expended using the Basic 9130. YouthBuild grantees have a 25% match requirement; therefore they must report these funds on line 10j, recipient share.

Discretionary Grants

All ETA discretionary grants use the Basic ETA 9130 format for quarterly financial reporting. With the phase out of the SF-269 in 2007, the Basic 9130 began to be used by all grantees who previously reported on an unmodified SF-269. Although not an exhaustive list, below are some of the ETA grants that use the Basic 9130 reporting format:

- Earmark Grants
- Green Job Grants
- National Emergency Grants
- Women in Apprenticeship (WANTO)
- Work Incentive Grants.

Although the Basic ETA 9130 format and the modified ETA 9130 formats request the same identifying and spending information as described above (lines 1-11a) the primary difference is that the Basic ETA 9130 does not require any additional expenditure data be reported by grantees beyond line 11a - "Other Federal funds expended." [See Attachment II-9-2 for further description of reporting requirements]

Electronic Report Submission. The financial reports for all ETA grant programs are required to be submitted electronically, using a Web-based reporting system which provides program-specific software containing required data elements. Instructions on the use of the reporting system and the required formats have been provided to grantees through the use of the TEGs referenced above, technical assistance provided by ETA financial staff and FPO's, online training, and numerous webinars. Grantees are provided with passwords (for data input) and personal identification numbers (PINs) (for data certification). Instructions for completion of the required data elements have been embedded within the electronic reporting system. The next step in the process is the ETA Regional Office review for completeness and accuracy. After the Regional Office has accepted and certified the reports, the ETA National Office utilizes the data for analysis and providing output report information to DOL management, OMB, and the Congress. Reports may be modified only by the grantees, with the explanation for any adjustments noted in the "*Remarks*" section (Line 12).

The reporting formats are structured so that, when a grantee accesses the reporting systems online, a menu appears that provides the grantee with a choice of program funding source and reporting quarter. Only the selected program funding source and reporting quarter will appear on the screen. When data is entered for a new reporting quarter, no previously entered cumulative data will appear on the format. Therefore, the new data for the reporting quarter must be added to previously submitted data to reflect cumulative data from the inception of the grant. Modifications to previously submitted data will generally be made by modifying the data in the current quarter, once the prior period is LOCKED. Such modifications are to be explained in the *Remarks* section of the report, including identifying the period being modified.

When the grantees have submitted the report, ETA Regional Offices have the responsibility to review the data, resolve any apparent conflict, and approve the report. Once reports from two consecutive quarters are “Region accepted,” the previous quarter’s report will become LOCKED from any modifications. The data will still be available, but it will be READ ONLY. For example, once the September 30, 2010, quarterly report becomes Region accepted, then the June 30, 2010, quarter data becomes LOCKED, i.e., it can no longer be modified.

SUBRECIPIENT REPORTS

States and other direct grant recipients are responsible for ensuring the timeliness and accuracy of required Federal reports. In order to comply with this requirement, recipients must establish subrecipient reporting requirements that will enable them to submit the Federal reports no later than 45 days after the quarter end. Recipients may impose additional reporting requirements on their subrecipients. Below are suggestions that may assist recipients in complying with Federal reporting requirements:

- Require subrecipients to submit their reports within 30 days of the quarter end. This allows the recipient adequate time to verify the accuracy of the financial data submitted by the subrecipient prior to Federal report submission. This option is useful when the subrecipient must submit electronic reports; however, grantees should have a mechanism in place to report costs in the event of non-reporting by a subrecipient.
- Require subrecipients to report on a monthly basis, with reports due 20 to 30 days after the month end. This option allows the recipient to have a preponderance of the financial data in hand in the event of non-reporting by a subrecipient. This option will also provide the recipient with financial data that is useful in managing and monitoring subgrants.
- Require subrecipients to provide a written estimate of accrued costs if they are unable to produce a timely required expenditure report.
- Carefully review the Federal report formats and require additional information as needed to effectively manage the subgrant process. For example, recipients may wish to require a breakout of the costs associated with the Intake, Assessments, Eligibility Determination, and Case Management activities by the component parts in order to have a true picture of the costs of serving clients in core services. They may wish to track the costs of core vs.

intensive services or the costs associated with ITAs in order to plan more effective service delivery systems. Recipients may also wish to have a breakout of costs by the contract line items, especially if there are line item restrictions in the subagreement.

ANNUAL WIA PERFORMANCE PROGRESS REPORT

The Annual WIA Performance Progress Report, required in 20 CFR 667.300(e) for WIA Title IB grantees, also calls for reporting financial data. While primarily a participant and performance report of the activities conducted under the three funding streams of Title IB, the Annual Performance Progress Report requires states to report the costs of program activities on an annual basis. The instructions for completion of the report are discussed in TEGL 14-00 dated March 5, 2001 and TEGL 14-00 - Changes 1, 2 and 3. The financial information is contained on Table N, Cost of Program Activities, in the Annual Performance Progress Report. The report is due December 1 of each year.

The report format calls for the reporting of cumulative program year expenditures for each of the WIA funding streams: Local Adults, Local Dislocated Workers, Local Youth activities, Rapid Response, and Statewide Required Activities. Only program costs are reported, with the exception of the Statewide Activities, which includes both program and administrative costs. There is also a section for reporting Statewide Allowable Activities by activity. In this section, states are required to list activities for which 10 percent or more of the funds were spent, and they may list any costs and activities allowable under the 15-percent set-aside for Statewide Activities. Only program costs are included in this list.

ADDITIONAL REPORTING CONSIDERATIONS

Recipients and subrecipients need to recognize and address a number of issues in order to comply with the reporting requirements. These are listed below.

- All reporting formats require grantees to report program income earned as a result of grant activities. As the WIA requires the use of the addition method in accounting for program income, WIA report formats provide for program income to be reported by income disbursed using the addition method plus undisbursed income for total program income realized. Grantee accounting systems must allow for program income earned and expended to be tracked for reporting purposes. A discussion of cost classification is found in Chapter II-5, *Cost Classification*, and appropriate treatment of program income is discussed in Chapter II-7, *Program Income*.
- The Federal Funding Accountability and Transparency Act (FFATA) of 2006 requires full disclosure to the public of Federal spending information by all entities and organizations receiving Federal funding under Federal grant awards. As required by FFATA and subsequent OMB guidance, prime grantees of Federal awards are required to report sub-award information via a single searchable website – USASpending.gov - that is available to the public. Prime grantees are also required to report executive compensation information

for their organization provided certain conditions are met. The FFATA Sub-award Reporting System (FSRS) – www.fsrs.gov - is the reporting system used by Federal prime grantees to report sub-award information and executive compensation.

- FFATA reporting requirements apply to all grants and cooperative agreements that are equal or over \$25,000. For ETA, this means that Federal grants and cooperative agreements awarded on or after October 1, 2010, where the funding is equal to or over \$25,000 are subject to the sub-award and executive compensation reporting requirements.
- Additional guidance on FFATA reporting can be found by visiting the Frequently Asked Questions section of the FSRS website at <http://www.fsrs.gov/#a-faqs>. ETA has also established an email account where grantees can direct FFATA related inquiries: FFATA.reporting@dol.gov.
- States are to track and report expenditures separately on the ETA 9130 for the 90 percent and 10 percent funds under the Wagner-Peyser program in Section 12, Remarks.
- Unemployment Insurance State Administration. All UI administrative funds are to be included on the ETA 9130, including funds for TAA and ATAA benefits administration, but excluding UI National Activities and cooperative agreements. UI program income and associated costs also must be reported on the ETA 9130. On line 12 (Remarks), enter accrued expenditures (for the quarter) and obligations (year-to-date) separately according to staff costs and non-personal services (NPS) costs. Expenditures/obligations must reflect charges against only current year funds. Charges against prior year funds (including carry-over funds) are to be reflected on the separate ETA 9130 for that year. [ET Handbook 336 Version, 18th edition, Change 2, UI State Quality Service Plans (SQSP) Planning and Reporting Guidelines Chapter II-3]
- Timeliness and accuracy of the reports are critical to a successful audit process and program management credibility. They are also critical to the success of reports ETA must make to the Congress.

EMPLOYMENT AND TRAINING ADMINISTRATION ADVISORY SYSTEM U.S. DEPARTMENT OF LABOR Washington, D.C. 20210	CLASSIFICATION Financial Reporting
	CORRESPONDENCE SYMBOL OFAM/OGM
	DATE May 27, 2011

ADVISORY: TRAINING AND EMPLOYMENT GUIDANCE LETTER NO. 28-10

TO: STATE WORKFORCE AGENCIES
STATE WORKFORCE ADMINISTRATORS
STATE WORKFORCE LIAISONS
STATE AND LOCAL WORKFORCE INVESTMENT BOARDS
ALL DIRECT ETA GRANT RECIPIENTS
STATE UNEMPLOYMENT INSURANCE DIRECTORS

FROM: JANE OATES /s/
Assistant Secretary

SUBJECT: Federal Financial Management and Reporting Definitions

1. Purpose. To provide Employment and Training Administration (ETA) grantees definitions of disbursements, expenditures, and obligations as they relate to the Federal reporting requirements specified in ETA grant agreements, the Uniform Administrative Requirements, and Government Accounting Standards to ensure consistent application of definitions in preparation of ETA's financial reports.

2. References.

- 29 CFR 97.3
- 29 CFR 95.2
- 2008 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (2008 Codification), Section 1700 and 1700.128
- 31 USC Sections 205 and 6503, the Cash Management Improvement Act (CMIA)
- U.S. General Accounting Office, Principles of Federal Appropriations Law ("Red Book"), Volume 2, 2006. (<http://www.gao.gov/legal/redbook.html>)
- Comptroller General Decisions: [B-148283, 1962]; [B-136383, June 27, 1958], and [B-116795, June 18, 1954]. (<http://www.gao.gov/legal/decisions.html>)

3. Background. Financial reporting by grantees enables ETA to report to its stakeholders key information about use of grant funds. Accurate data are imperative because these reports impact ETA's financial credibility. Accurate reporting of the expenditure and obligation of funds in the current year provides vital information for future ETA funding levels and crucial data for both ETA and grantees necessary for appropriate management of grant funds. While common errors include late or inaccurate reports, it has also come to our attention that ETA grantees are

RESCISSIONS
NONE

EXPIRATION DATE
Continuing

inconsistently interpreting and applying definitions of key financial terms in preparing their quarterly financial reports. The lack of consistency in reporting of disbursements, expenditures, and obligations also derives from the different accounting systems used by the various grantee entities that do not also track accruals through use of worksheets.

As a result, a number of grantees are providing ETA with an inaccurate picture in their quarterly financial reports. As a means to create consistent reporting across grantees, ETA has developed this Training and Employment Guidance Letter (TEGL) to discuss the impact of using appropriate terms on financial or programmatic management of grants; to clarify the definitions of common financial management terms; and to provide examples of appropriate use of the definitions.

- a. Disbursements.** Cash disbursements from the Federal level to grantees are tracked in real time (as opposed to expenditures which are reported only once per quarter). As a result, these data are often used by ETA as a proxy for the status of the usage of funds for grant programs. The financial reports submitted by the grantees provide validation of the accuracy of this data and additional information not available at the Federal level, such as disbursements from the states to the local areas. Discrepancies in the way disbursements are reported by grantees diminish the credibility of ETA's analyses. One inconsistency ETA sees in state grantees stems from the differing terms of their individual Treasury-Governor Agreements under the Cash Management Improvement Act (CMIA). Based on the terms of their agreements, some states may delay the drawdown of funds using state funds to pay expenditures and operate on a quasi-reimbursement basis. Other states utilize drawdowns to provide advances to subrecipients for prospective expenditures. In addition, the reporting of disbursements takes on different meanings depending on the level of the report, e.g., statewide versus local. The disbursements reported should reflect those made by the appropriate reporting entity. Another inconsistency stems from timing issues. Requests for cash made at end of the reporting period may not be paid by the last day of the reporting period. In this case, they should not be reported as "Federal cash received" during the period. As provided in the reporting instructions, reported disbursements should reflect only those made from Federal cash received.
- b. Expenditures.** There has been some discussion that for the Workforce Investment Act (WIA) formula programs, not all grantees are complying with the requirement for reporting on an accrued expenditure basis. This lack of consistency in the reporting of expenditures affects ETA's ability to provide accurate data to Congress and others regarding the current use of appropriated funds. Inaccurate data may have a detrimental impact regarding decisions on future funding levels. In particular, underreporting of expenditures in a given period may provide the false impression that the funding levels Congress provides meet or exceed current needs. ETA requires all grantees to report expenditures on a full accrual basis; a requirement that has been in place for many years, with a concerted effort to increase accuracy in the past five years. The accrual method has been demonstrated to be a better determination of the actual costs of a particular program at a point in time. Currently, reporting of expenditures on an accrual basis varies among grantees because of the types of accounting systems employed by the different grantee entities. State and local government agencies generally operate on a cash or modified accrual basis. Many non-governmental entities do not account on an accrual basis. Reporting on an accrual basis is further complicated when various expenditures for administrative costs are allocated among various funding streams via the

cost allocation process. Because of the way in which these systems process accounting entries and record expenditures, grantees must work to record and report accruals when preparing the quarterly ETA 9130 reports (Office of Management and Budget (OMB) No. 1205-0461).

A 2009 analysis indicated an increase in reported costs over previous periods which would be consistent with an increased use of accrual reporting methods; however, there is little actual data to support assertions that states or discretionary grantees either comply or do not comply with requirement to report on an accrual basis. Nevertheless, anecdotal evidence indicates that many accruals, particularly at the subrecipient levels, are not being reported.

- c. Obligations.** The obligation data grantees report provide ETA an expanded picture of how funds are being utilized through the current period, as well as in future periods, as obligations represent definite commitments which will result in future expenditures. Accurate tracking of this data provides grantees with critical information needed to manage their grant funding over the period of fund availability. In particular, obligations which are over-reported may result in the loss of funds to the grantee and ETA if the funds expire before they can be used. In addition, ETA is aware of discussions in the grantee community relating to whether projected training costs should be counted as obligations. Section 4 of this TEGP provides the definition of obligations that grantees must follow as well as examples of the types of transactions that do and do not constitute federally reported obligations.

4. Definitions and Examples. In order to minimize the problems described above, this section provides definitions for three terms that must be used by ETA grantees and subgrantees in ETA's financial management and reporting: disbursements, expenditures and obligations. These terms describe varying levels of commitment of resources for goods and services in Federal grant programs. It is essential to use the proper term in each stage of a transaction to ensure accurate accounting and reporting of Federal funds.

a. Disbursement

For ETA's purposes, at the Federal level, disbursement means the transfer of cash from the Federal government to the grantee through the Payment Management System (PMS) maintained by the Department of Health and Human Services (HHS). This then constitutes a cash receipt to the grantee. At the grantee level, disbursement means the transfer of cash from the grantee to a subgrantee or other payee, either by check, voucher or an electronic transfer issued to the entity often through an electronic payment system.

Federal disbursements are measured through the HHS PMS and are the gross cash dollars drawn down against the grantee's overall obligational authority or award amount. The requirements related to cash receipts are governed by the Uniform Administrative Requirements and the CMIA. Both require that grantees maintain minimal cash balances and the excess cash is subject to earning interest that must be returned to the Federal government.

Examples of disbursements at the Federal level are on-line transfers to grantees through the HHS-PMS system. For purposes of the Federal financial reports, these are "Federal

cash receipts.” In many cases, this information is pre-entered into the grantee’s report. At the grantee level, examples of disbursements include electronic transfers of cash to a subrecipient organization, and payments to vendors for goods and services. For reporting under WIA Title I formula grants, the level of the report (that is, statewide versus local) determines what data should be reported. For reporting statewide activities, an electronic transfer of funds to a local area or a payment to a state subrecipient is an example of disbursement. For local level reporting, a local area payment to its subrecipient or other organization is an example of a disbursement.

b. Expenditures

In general, expenditures (sometimes referred to as outlays) mean charges made to the project or program in support of its authorized activities. These charges may be accounted for on either a cash or accrual basis. However, ETA requires all grantees to report all financial transactions on a full accrual basis. Accrued expenditures mean the charges incurred by the grantee during a given period requiring the provision of funds for: (1) goods and other tangible property received; (2) services performed by employees, contractors, sub-grantees, subcontractors, and other payees; and (3) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 97.3]

In general, total accrued expenditures are costs incurred for goods and services received regardless of whether the payment has been made. 29 CFR Part 97 (and with similar language in 29 CFR Part 95) states that:

“If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through an analysis of the documentation on hand.”¹

For grantees using a cash accounting system, expenditures tracked in their system are actual cash disbursements for charges for goods and services, and payments made for indirect expenses incurred, and also may include the amount of cash advances made to contractors and sub-grantees. Therefore, grantees using cash basis accounting also must maintain accrual worksheets to capture the additional data and documentation required to report their expenditures on an accrual basis. Any cash disbursements representing advances for which expenditures have not yet been incurred must be deducted.

There are various kinds of accrual accounting systems, including modified accrual. All accrual accounting systems do not necessarily capture all the accrued expenditures that should be reported to DOL on a quarterly basis, such as the cost of training that has been received but has not been invoiced. Grantees using an accrual accounting system may also need to develop worksheets to capture additional accruals that must be reported.

Examples of expenditures that are to be reported to ETA include: (a) all costs of goods and services which have been received and paid for; (b) the salaries and benefits earned by employees for work performed or leave taken, whether or not the payroll checks

¹29CFR 97.41

have been issued; (c) the cost of services received by clients/participants, such as child care or transportation, for which the grantee has a legal requirement to pay; (d) the cost of training which has been received by enrolled participants; and (e) the cost of tuition paid up front for participants enrolled in classes as explained below.

It is important to note that accrued expenditures include costs where the services have been received, but not yet billed. A prime example of this is tuition. Tuition costs are often billed months after the participant has entered and received training. Therefore, the cost of the tuition for the training is accrued, even though it has not been billed. On the other hand, tuition is a specific exception, as provided by the Comptroller General, to the prohibition of paying for services before they are received. The full cost of tuition for the current semester/quarter classes in which an individual is enrolled can be expensed when paid up front. By reporting the costs on an accrued basis, grantees may accrue the costs either at the beginning of the semester/quarter when paid up front for, or as the participant receives training. Since the cost of training is often a significant component of expenditures incurred under ETA programs, this provides a much more realistic and timely assessment of the actual costs incurred for training. Please note that accrual of advance payments for tuition applies only to the current term and does not apply to longterm and multi-year training programs, as discussed below.

c. Obligations

Obligation, as defined in 29 CFR 97.3, means the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.²

In sum, obligation is a term that references actions where a legal commitment to pay exists. The obligation may occur at the time the services are rendered, or before services are rendered when a binding agreement has been entered into. Grantees must note that the Comptroller General of the United States has issued statements concerning obligations that include: “definite commitment which creates a legal liability” and “definite and certain.” (B-136383, June 27, 1958 and B-1 16795, June 18, 1954). In other words, obligations are legal requirements - not plans, budgets, or encumbrances.

Examples of obligations or legal commitments include subgrant agreements, purchase orders, or cash disbursements. Obligations do not include such actions as projected staff time, future or projected rent payments, future or projected training, or items that are budgeted during the period of the grant award.

Obligations should not be confused with “encumbrances.” In accounting, an encumbrance means an anticipated expenditure or funds restricted for anticipated expenditures. Encumbrances are used by organizations to account for projected or budgeted costs that may come due in a current period or a future period. Examples of encumbrances may include: the rent that will be paid for the upcoming year (see discussion below); staff salaries that will be paid when the staff actually performs the work; and projected training costs for participants that are in year-long or multi-year training programs. The above examples are encumbrances because none of these items

² For reallocation purposes, the Workforce Investment Act of 1998 adds additional language to this definition, found at 20 CFR 660.330

above meet the more stringent standards of being an obligation, such as being definite and certain and creating a legal liability, and the costs associated with them may not be paid in advance of the actual work, occupancy, or registration for training. Organizations may use encumbrances to set aside funds for known future needs. Encumbrances need to be reviewed on a periodic basis and either obligated or liquidated in order to manage fund availability and use, in accordance with each entity's accounting system requirements.

The use of obligations as a measure of the grantee's financial performance provides for internal controls as they are included in grantee accounting systems and accounted for in accordance with Generally Accepted Accounting Principles or GAAP. There have been discussions in the grantee community that projected training costs should be counted as obligations. Projected training costs do not meet the definitions of obligations found in 29 CFR 97.3 as they do not meet the requirement of being definite and certain, nor do they constitute a legal liability until the participant is registered in a specific course. Further, a Comptroller General decision related to pre-payment of tuition costs states that the period covered by the pre-payment (i.e. the obligation) only extends to the current period the participant is registered and attending classes (Comptroller General Decision [B-148283, 1962]). Therefore, while grantees need to be aware of future needs and should have a system for managing these needs, the inclusion of such items as obligations would violate Federal grantee accounting and ETA reporting standards.

There are also similar discussions regarding reporting leases as obligations. Since rent payments are contingent on continued occupancy, the only portion of a lease that can be reported as an obligation is the amount due if the lease is canceled, often called the cancellation penalty. Appropriate accounting for an operating lease is to record only the current expenditure and include only the cancellation penalty as an unliquidated obligation.

To provide a specific example, Individual Training Account (ITA) amounts for tuition are not obligations at the time the ITAs are issued by the grantee to a participant.³ They become obligations only at the time the participant enrolls in training at the training institution. The issuance of the ITA is equivalent to a budgeted limit for training. An ITA is a commitment by the grantee to a participant which does not result in a legal commitment until the participant is registered for a class with a particular educational institution. Once the participant registers for classes, the obligation can be recorded. Consequently, the amounts of ITAs for which enrollments have not occurred are merely encumbrances to manage fund availability and use and are not reported to ETA.

Accurate accounting of obligations is important because it directly relates to future funding availability. If a grantee tracks and reports amounts which are not actual obligations, and obligations which are over-reported end up not being liquidated, and unexpended or unused portions of the grant are not de-obligated timely for re-use, funding authority for the grant may expire and the funds would be returned to the U.S. Treasury. Once returned to the US Treasury, these funds are no longer available for the purpose intended. Inefficient utilization of Federal funds results in the appearance that the program did not require all the funds it was previously appropriated. In the past, this

³ Where ITA is defined at 20 CFR 663.410

appearance has been used to justify budget reductions and even mid-year rescissions.

- 5. Action Requested.** Please disseminate to staff responsible for financial management and reporting of ETA grants.
- 6. Inquiries.** Questions regarding this guidance should be directed to the appropriate Regional Office.

U.S. DOL ETA Financial Report - ETA 9130

Sample of programs that use the Basic ETA 9130 Financial Reporting Format

Earmarks
Green Jobs Innovation Fund
National Emergency Grants
TAA*
WANTO
Work Incentive Grants
YouthBuild

Programs that use a modified ETA 9130 Financial Reporting Format

Program	Administrative Expenditures	Additional Expenditure Data Required (Lines 11b, 11c, etc)
WIA Title 1B Formula		
-Adult	Local area administrative costs [†]	-Real Property Proceeds Expended -Expenditure of Adult funds transferred to Dislocated Worker program
-Dislocated Worker	Local area administrative costs	-Real Property Proceeds Expended -Expenditure of Adult funds transferred to Dislocated Worker program
-Youth	Local area administrative costs	-Real Property Proceeds Expended -Expenditures on out-of-school youth -Expenditures on in-school youth -Expenditures on Summer Employment Opportunities
-Statewide Adult	State administrative expenditures [‡]	-Real property proceeds expended -Expenditures from recaptured local area funds
-Statewide Dislocated Worker	State administrative expenditures	-Real property proceeds expended -Expenditures from recaptured local area funds

* TAA grantees actually submit 2 separate Basic 9130 reports – one for program costs, including the costs for job search, relocation and training and one for costs associated with administering the TAA program.

[†] Because 10% of the total WIA Youth, Adult and Dislocated Worker funds are available for expenditure on administration, funds identified on Line 10f may be allocable to WIA Adult, Youth and Dislocated Worker activities.

[‡] Because 5% of the total Statewide WIA Youth, Adult and Dislocated Worker funds are available for expenditure on state administrative costs, funds identified on Line 10f may be allocable to Statewide WIA Adult, Youth and Dislocated Worker activities.

-Statewide Youth	State administrative expenditures	-Real property proceeds expended -Expenditures from recaptured local area funds
-Statewide Rapid Response	Administrative costs cannot be charged	-Real property proceeds expended
INAP	Total administrative expenditures	-Expenditures for Employment Services -Expenditures for Training Services -Expenditures for Other Program Services
NFJP	Total administrative expenditures	-Expenditures for Related Assistance -Other Program Services
UI	Not required to be broken out; part of Federal Share of Expenditures (Line 10e)	-Real property proceeds expended
SCSEP	Total administrative expenditures	-Administrative expenditures at the direct recipient level -Administrative expenditures at the program operator level -Enrollee wages and fringe -Other enrollee expenditures
Wagner Peyser	Not required to be broken out; part of Federal Share of Expenditures (Line 10e)	-Real property proceeds expended

Chapter II-10

Procurement

INTRODUCTION

This chapter provides guidance on the procurement of goods and services under the ETA-funded programs addressed in this TAG. It includes a discussion of the various methods available for procurement and the development of procurement policies and procedures, lists the required contract elements, provides guidance on the use of fixed-price contracts, and discusses additional requirements that may apply. Appendix E to this TAG provides guidance on distinguishing between subrecipients and vendors. This chapter contains the following sections:

- State and Other Governmental Grantees
- Nongovernmental Grantees and Subgrantees
- Required Contract Clauses
- Additional WIA Requirements
- Attachment II-10-1—Fixed-Price/Performance-Based Contracts.

STATE AND OTHER GOVERNMENTAL GRANTEEES

The requirements pertaining to the procurement for state and local governmental grantees and subgrantees of goods and services are listed in 29 CFR 97.36. States are required to follow the same policies and procedures they employ for procurements using non-Federal funds. In addition, they are required to ensure that all Federally required clauses are included in all purchase orders and other agreements. All other governmental grantees and subgrantees are required to follow the requirements of 29 CFR 97.36(b) through (i).

Procurement Policies and Procedures

As stated above, states are required to follow the same procedures as are followed for non-Federal procurements. Local governmental and Indian tribe grantees and subgrantees may follow their own policies and procedures if they reflect state and local laws and regulations and the procurements conform to the standards of 29 CFR 97.36(b) through (i). Grantees and subgrantees are required to maintain a system for the administration of contracts. In order to comply with these requirements, grantees/subgrantees should maintain written procedures that, at a minimum, address the following standards:

- A contract administration system that ensures contractors perform in accordance with the requirements of any awards

- A written code of conduct for employees engaged in the award and administration of agreements. The grantee/subgrantee must also include the standards for conduct specified at 20 CFR 667.200(a)(4), which address conflict of interest provisions for state and local area grantee board members.
- Procedures that detail the requirement for a review of prospective procurements to avoid purchase of unnecessary or duplicate items, including analysis of lease vs. purchase
- A process that promotes the use of intergovernmental agreements for procurement or use of common goods and services, as well as the use of Federal excess and surplus property wherever possible
- A process to ensure that awards are made only to responsible contractors with the ability to perform successfully. The awarding agency standards should address integrity, compliance with public policy, past performance, and contractor resources (technical and financial) for prospective contractors.
- Documentation of each of the significant steps followed in making an award. These must include rationale for method of procurement, selection of agreement type, selection or rejection criteria, and the basis for the contract price, including the independent agency estimate of price.
- A settlement process. Grantees and subgrantees are solely responsible for the settlement of all procurement actions, including those related to source evaluation, protests, claims, and disputes. Violations of law must be referred to the appropriate local, state, or Federal agency having jurisdiction.
- Protest procedures to handle disputes related to both award and administration of contracts. Protest procedures must include available remedies, and the information related to protests must be disclosed to the awarding agency. Protestors must exhaust all grantee and subgrantee administrative remedies before pursuing a protest with a Federal agency, and any protest to the Federal level must allege a violation of Federal law or regulation or of the governmental grantee's violation of its own protest procedures.

Written procedures will also assist grantees and subgrantees to meet the requirements for procurement system certification that are contained in 29 CFR 97.36(g)(3) related to awarding agency review of proposed procurement actions.

Partner / Procurement

The Uniform Administrative Requirements state that all procurement transactions be conducted in a manner that promotes free and open competition and adherence to state and organizational procurement standards and processes. Utilization of one of the methods specified in 29 CFR 97.36(d) and compliance with the additional process requirements will satisfy the requirement for competition. There are four (4) methods specified and these methods cover most situations faced by a grantee in the procurement of both goods and services, including the appropriate use of non-competitive procurements. This means that for services to be provided under the grants, or for goods acquired for grant use, the procurement process must be followed and such actions documented.

There is only **one** exception to this requirement. That exception applies to those organizations meeting the definition of a partner organization. ETA has consistently held that for those organizations meeting the partner standard, no Federal procurement process would be required. A partner organization is an integral part of the awarded program effort and must have been a “partner” in the development of the application and subsequent to the grant award, the implementation plan. It is an organization whose absence would lead to non-performance or failure. The work performed by “partner” organizations is integral to the successful operation and performance of the grant. However, the provisions that partner organizations are outside the procurement process applies to the Federal requirements only. ETA does not have the authority to waive state procurement rules nor to waive state-imposed requirements on subgrantees. Additionally, ETA’s definition of “partner” assumes that only the grantee and lead project operator would have “partner” organizations that meet the definition stated above. Partner activities are those specified in the original Statement of Work and/or Implementation Plan. Any additional or subsequent changes to the original “partner” activities are subject to procurement requirements.

Procurement Methods

Section 29 CFR 97.36(c) specifies that all procurement actions are to be conducted in a manner that provides for “full and open competition.” Within the context of open competition, four methods are discussed in Section 97.36(d) by which agencies may procure goods or services. They are described in the following paragraphs.

Small Purchase. This is a relatively informal method used primarily to procure goods (supplies and equipment). If small purchase procedures are used, price or rate comparisons from an adequate number of qualified sources must be obtained. This method is appropriate only when price is the overriding factor and may be easily quoted and compared, delivery is standardized, and performance outcomes are not dependent upon the content of the goods being procured. While the Federal threshold for small purchase is currently \$100,000, the locally imposed threshold may be substantially smaller, and grantees/subgrantees must adhere to the lower threshold. **Note:** This is true even though 95.44(e)(2) has not been corrected to reflect the current level.

Example: The agency has a need for automobiles. It compares the prices at three different sources and makes a selection based on price. The total procurement is approximately \$31,000, under the agency threshold of \$100,000.

Sealed Bids. Under sealed bid procedures, bids are publicly solicited, and the procurement is awarded to the lowest bidder, resulting in a fixed-price (either lump sum or unit price) contract. In order for this process to be feasible, three conditions must be met: complete and realistic specification of required goods or services is available and part of the solicitation, there are at least two responsible bidders, and the procurement may be made principally on the basis of price. A firm fixed-price contract may be awarded. This method is also used for complex technical specifications such as Information Technology (IT) acquisitions. The requirements for use of sealed bids are specific:

- The Invitation for Bid (IFB) is publicly advertised and bids are solicited from an adequate (more than two) number of known suppliers
- The IFB contains all “specifications and pertinent attachments” and defines the items or services to be procured in sufficient detail for the bidders to respond properly
- All bids are publicly opened
- A firm fixed-price contract is awarded to the lowest responsive and responsible bidder
- Any or all bids may be rejected if there is a documented reason.

Example: The organization is looking to procure computer hardware, including printers, and peripheral hardware needed for establishing a network at the One-Stop. The exact specifications for the computer hardware, including numbers and required capacity, are contained in the IFB, published in the local newspaper, and sent to prospective suppliers. The award is a fixed-price contract to the lowest responsible and responsive bidder.

Competitive Proposals. Competitive proposals are used when there is more than one prospective bidder, the lowest price is not necessarily the determining factor for award, and either a fixed-price or cost-reimbursement agreement will be awarded. The competitive proposal method also meets the standards for “full and open competition” and is appropriate when the agency seeking goods or services is looking for a variety of methods that may be employed to achieve the results called for in the Request for Proposal (RFP). Often, the evaluation factors will focus on approach, program design, innovation, coordination, and experience. The following requirements apply:

- RFPs are publicized. They must contain the specifications that provide a common understanding for the proposed goods or services sought and identify all the evaluation factors and their relative importance or weight in selection of successful bidders.
- Proposals are solicited from an adequate number of qualified sources.
- A method for conducting technical evaluations of proposals and selection of awardees is in place.
- Awards are made to selected bidders whose proposals are most advantageous to the program based on price and the other evaluation factors.

Example: An RFP is issued for prospective providers of training services for WIA Title IB Youth participants. The RFP is published and the submitted proposals are reviewed for responsiveness to RFP specifications, proposed performance criteria, and costs. Awards may be made to more than one successful bidder, and either fixed-price and cost-reimbursement contracts may be awarded, depending on the uniformity and predictability among individual providers and such factors as occupations, pay rates, number of training hours, etc.

Example: The LWIB desires to issue an RFP and solicit proposals from prospective One-Stop operators. Again, the RFP is published and the submitted proposals are reviewed for responsiveness to RFP specifications, proposed performance criteria, and costs. The RFP criteria would be set by the LWIB and may include additional performance criteria related to One-Stop certification, etc. Awards may be made to more than one successful bidder. The contract in this instance would most likely be a cost-reimbursement contract for services rather than a fixed-price contract for performance.

Noncompetitive Proposals. This method is the solicitation of a proposal from a single source, or, after solicitation of a number (more than one) of sources, competition is determined inadequate to fulfill the requirements of the funding agency. If this method is used, the following requirements must be met:

- The award is infeasible under one of the methods discussed above, and one of the following conditions apply:
 - The item is available from only one source
 - Public emergency precludes delay (for example, a flood at the local day care center requires the immediate acquisition of additional services)
 - The awarding agency authorizes the specific noncompetitive procurement (upon a formal request for approval)
 - Competition is determined inadequate. This usually occurs after a competitive process has been used and there are insufficient bidders.
- For all noncompetitive procurement actions, a cost analysis is required. This entails verification of the proposed cost data and evaluation of the specific elements of costs and profits, including comparison with the agency's prior independent price estimate. Profit must be separately negotiated in the award, and cost plus a percentage of cost agreements are not allowable.

Subgrantees may be required to submit the proposed noncompetitive procurement to their awarding agency (i.e., the state for formula subgrantees (i.e., the LWIB) or the direct DOL grantee) for review or approval.

Noncompetitive procurements are allowable under 29 CFR 97.36, but they are considered a "last resort" option and used only when there is a documented reason for sole source selection.

Therefore, grantees should ensure that the competitive process is open and fair. They must exercise caution when using noncompetitive procurements.

Example: An LWIB solicits proposals for the provision of youth services in a rural area, and only one bid is received. Rather than change the specifications and re-issue the RFP, the organization may enter into an agreement with the single bidder. Documentation to support the decision will be required, i.e., a cost analysis documentation that other procurement methods are infeasible and the

awarding agency (the state) has approved the procurement. If required by the awarding agency, such an agreement would have to be approved by the awarding agency prior to execution.

NONGOVERNMENTAL GRANTEES AND SUBGRANTEES

Institutions of higher education, hospitals and other nonprofits, and commercial organizations that receive grants and subgrants under ETA-funded grant programs must follow the procurement standards of 29 CFR Part 95 found at 29 CFR 95.40-48. These standards are slightly different from the standards imposed on states and governmental grantees. The requirements for nongovernmental grantees are discussed in the following subsections.

Procurement Policies and Procedures

The standards to be employed under Part 95 are listed in 29 CFR 95.41-47. The standards are similar to those listed in Part 97 and are described as follows:

- Each recipient/subrecipient must maintain written standards of conduct, including conflict of interest provisions and disciplinary actions for violations. The conflict of interest standards must also address the requirements of 29 CFR 667.200(a)(4) related to state and LWIB members.
- Each recipient must maintain a system that provides for full and open competition whenever practicable. Awards should be made based on a responsive bid or offer and the one most advantageous to the recipient after consideration of price, quality, and any other factors contained in the solicitation.
- Each recipient/subrecipient must establish written procurement procedures that provide for
 - No purchases of unnecessary items
 - Analysis of lease vs. purchase options to determine the most “economical and practical” procurement.
- Solicitations that provide for the following:
 - Clear and accurate descriptions of the goods or services being procured. The description must not contain features that restrict competition.
 - All requirements that must be fulfilled and all other factors used in evaluating bids or proposals
 - Technical requirements described in terms of functions to be performed or performance required, including a range of acceptable or minimum acceptable standards
 - Specific features of “brand-name or equal” descriptions, if included in the solicitation
 - If procuring goods or certain types of services, the acceptability of metric measurements.

- Preference for ecologically sound and energy-efficient products.

Recipients are also responsible for the resolution of all contractual and administrative issues arising out of the procurements unless the issues concern violations of statute. Those matters are to be referred to the proper Federal, state, or local authority as may have jurisdiction.

In addition, recipient/grantee procurement practices should encourage the utilization of small businesses, minority-owned firms, and women's business enterprises whenever possible.

Procurement Methods

Section 29 CFR Part 95 does not prescribe specific methods for procurement, as does 29 CFR Part 97. The regulations require that procurements be conducted in a manner designed to provide full and open competition. [29 CFR 95.43] However, the four methods described earlier in this chapter are appropriate methods to procure both goods and services under the provisions of Part 95, with certain caveats:

- The small purchase threshold for Part 95 grantees and subgrantees is \$100,000. This also applies to subgrants or subawards made. [29 CFR 95.2(ii)] Grantees are again cautioned that the small purchase threshold applicable to their organization may be lower.
- While there is not a requirement for prior approval from the awarding agency, unless the awarding agency specifically requires such an approval for noncompetitive procurements, any such procurements are always subject to review by the awarding agency. [29 CFR 95.44(e)] Awarding agencies may and do regularly add prior approval requirements to grants and subgrants.

REQUIRED CONTRACT CLAUSES

The type of agreement entered into by a grantee or subgrantee may be fixed price or cost reimbursement, depending on the method of procurement and goods or services being procured. Each agreement funded by the ETA grant programs must contain the specific clauses referred to in 29 CFR 97.36(i), or 29 CFR 95.48, and Part 95, Appendix A, as appropriate. They are listed below. **Note:** Not all clauses listed below are required for every type of grantee or subgrantee.

- For all contracts in excess of the small purchase threshold, administrative, contractual, or legal remedies where contractors violate or breach contract terms. The clause must also provide for sanctions or penalties, as appropriate.
- Termination for cause and for convenience by the awarding agency, including the process for exercising the clause and any basis for settlement (applies to contracts in excess of \$10,000 (Part 97) or contracts in excess of \$100,000 (Part 95))
- Access to records by the awarding agency, the grantee, the DOL, or the Comptroller General of the United States for the purposes of audit, examination, excerpts, and transcriptions (for other than small purchase transactions)
- Notice of awarding agency requirements and regulations related to reporting

- Notice of awarding agency requirements and/or regulations related to patent rights, copyrights, and rights in data
- Record retention requirements as specified in 29 CFR 97.42 or 29 CFR 95.53
- Compliance with Equal Employment Opportunity provisions in Executive Order (E.O.) 11246, as amended by E.O. 11375 and supplemented by the requirements of 41 CFR Part 60. These are codified for DOL programs at 29 CFR Parts 33 and 37.
- Compliance with Sections 102 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 328 and 333) (all contracts in excess of \$2,500 that involve employment of mechanics or laborers and all construction contracts in excess of \$2,000)
- Compliance with the applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act, Section 508 of the Clean Water Act, E.O. 11738, and Environmental Protection Agency regulations (40 CFR Part 15) (applies to contracts, subcontracts, and subgrants in excess of \$100,000)
- Mandatory standards and policies related to energy efficiency, which are contained in the state energy conservation plan issued in compliance with the Energy Policy Conservation Act (Public Law 94-163)
- A provision requiring compliance with the Byrd Anti-Lobbying Amendment (31 U.S.C. 1352). This requirement is also found in 29 CFR Part 93.
- A provision requiring compliance with the debarment and suspension requirements (E.O. 12549 and 12689). This requirement is also found in 29 CFR Part 98.
- Compliance with the provisions of the Davis-Bacon Act for construction contracts in excess of \$2,000
- A provision requiring compliance with the Copeland Anti-Kickback Act (construction and repair awards).

Grantees and subgrantees must also use the contract provisions to include other requirements of the WIA or other ETA grant program, as appropriate. These include provisions related to the following:

- Applicability of the appropriate ETA program and administrative regulations
- Audit requirements of 29 CFR Parts 96 and 99.

ADDITIONAL WIA REQUIREMENTS

In addition to the requirements of 29 CFR Part 97 or Part 95, the following requirements apply to procurements and agreements funded under the WIA:

- All agreements between LWIBs and units of government must be cost-reimbursement. [20 CFR 667.200(a)(3)] There is no provision for profit with governmental agencies.
- If a fixed-price agreement with a governmental or nonprofit agency results in revenues in excess of actual costs incurred, the excess revenues are considered to be program income. [20 CFR 667.200(a)(6)] Any such fixed-price agreements should reference this requirement.

- The local workforce investment plan must contain a description of the competitive process used to award grants and contracts under all programs funded under WIA Title I. The description must also include the process used to procure training services outside the ITA process. [20 CFR 661.350(a)(10)]
- The procurement requirements for services to be provided under WIA Title IB Youth programs are specified in Section 123 of the Act. This section requires that activities and services for youth be competitively procured. Small purchase procedures can be used to purchase a training slot for a youth at a training institution if allowable under the agency's procurement policy. Additional guidance on the procurement of youth services is found in TEGL 9-00, dated January 23, 2001; TEGL 12-01, dated February 21, 2002; and the WIA Youth Program RFP Guide (which may be downloaded from www.doleta.gov/youth_services/techassistance.asp).
- The procurement requirements addressed in this chapter do not apply to the identification of eligible training providers. The process for identification of eligible training providers for training services under WIA Title IB programs is described in 20 CFR Part 663, Subpart E. The state is responsible for the development and maintenance of a state-wide training provider list. While not a Federal requirement, each grantee should have a formal agreement for services when a training provider is to deliver services. This may be in the form of a purchase order, contract, voucher, or other mechanism that provides for payment information and may be incorporated or referenced in the individual ITAs. Payment of proposed training services listed in the ITA is covered in Chapter II-6, *Cash Management*.

Use of Fixed Price Agreements

Attachment 1 to this Chapter discusses the use of fixed price agreements in ETA programs. It is intended to provide guidance to grantees and subgrantees on the appropriate use of and accounting for these types of agreements.

Subrecipients and Vendors

Appendix E to this TAG provides the distinguishing characteristics of subrecipients and vendors and a side-by-side comparison of characteristics to aid grantees/subgrantees to make the appropriate designation of subrecipients and vendors.

Fixed-Price/Performance-Based Contracts

A number of issues surrounding the use of fixed-price/performance-based contracts (FP/PBCs) may impact their suitability as agreements under any ETA-funded program. The following discussion is intended to provide guidance to grantees and subgrantees on the appropriate use of and accounting for these types of agreements.

FP/PBCs are structured so that payments are earned only with delivery of the agreed, precisely defined, measurable outcome(s). Under FP/PBCs, there is no obligation to pay the awardee unless satisfactory delivery is achieved, unlike cost reimbursement contracts. The cost reimbursement agreements contain line item budgets and base their cost claims on “best efforts” to attain the intended results. The attraction of FP/PBCs stems not only from this no-results/no-payment feature, but also from the fact that risk, responsibility, and approach are primarily the burden of the contractor, thereby lessening the amount of required grantor oversight. Efficient, effective delivery would be expected to enhance the margin of earnings in excess of the awardee’s costs, while poor performance could mean the awardee would experience a significant financial loss. However, the WIA regulations specify that, for nonprofit or governmental organizations, the excess revenue over the costs must be treated as program income. This requirement is discussed in Chapter II-7, *Program Income*.

The ETA and its regulations provide no specific guidance on the topic of performance contracting. However, the procurement requirements of 29 CFR Parts 95 and 97 require that,

- For costs to be allowable, they must be reasonable and necessary
- Procurements must be competitive (and qualifying exceptions to full and open competition must be justified) and not reflect conflict of interest
- Documentation of the procurement process must include bases for source selection and pricing.

In addition, costs incurred under the various ETA grant programs are required to be allocated among the specified cost categories or funding sources in accordance with benefits received. Equitable assignment of costs among benefiting cost categories has historically been a challenge for most fixed-price agreements.

One solution to the problems of how to ensure reasonable pricing and proper allocation of costs among the cost categories for FP/PBCs would require the following:

- Thorough cost/price analysis in accordance with Parts 95 and 97. Such analysis would be done from a line item budget provided by the offeror that (a) reflected resource inputs distributed among cost categories, and (b) resulted in a reasonable cost/price analysis conclusion by the grantor, including the assignment of resource inputs to proper cost categories.
- This cost/price analysis would be documented and subject to review

- The offeror would have certified in writing that its cost and pricing data were accurate, complete, and current to the best of its knowledge at the time of submission.

Costs incurred under such an agreement would then be allocated among the benefiting cost categories based on the ratios established in the cost/price analysis. As stated, this is a proper solution to the problems associated with allocating costs. Other solutions may be available to the grantee; however, caution must be exercised to ensure adherence to the procurement requirements of Parts 95 and 97 as well as the cost principles contained in the appropriate OMB circulars.

FP/PBCs for the purchase of training services are vulnerable to several kinds of problems. Under WIA programs, this may be more of an issue with the Youth programs where all services must be contracted. The Adult and Dislocated Worker programs use ITAs to fund training services, for the most part; however, most intensive services are contracted as are on-the-job training (OJT) and specially developed training services. Therefore, any grantor agencies that choose to use this form of agreement should be alert to avoid some of the more common hazards:

- **Benchmarks.** To moderate what otherwise might be an unacceptably high risk potential faced by FP/PBC awardees, these contracts are frequently structured to provide separate payment points, each compensating for some documented unit or increment of progress toward achievement of the ultimate contract objective. The dollar value assigned to each of these payment points should ensure that the contractor cannot recoup its costs before the final objective is achieved. Furthermore, the work should be benchmarked so that sufficient funds are held back to encourage full performance. The performance being rewarded should focus on the participant's achievement. Thus, the process of enrolling a participant should not be identified as an incremental payment point if enrollment is primarily an achievement of the contractor, not the participant. Finally, it should be recognized that fragmenting the units of delivery into smaller and smaller increments diminishes the risk that is presumed to exist when pricing this form of agreement.

Example: Successfully reaching mid-point of a training course (documented by mid-term grades) is defined in the contract as a partial or incremental payment point, with completion of the training defined as another incremental payment point, and training-related placement, still another. Additional compensation is sometimes paid for placements into jobs paying wage rates above prescribed levels. In this example, the benchmarks are structured to reward achievement by the participant.

- **Umbrella Contracts.** Similar performance can frequently be attained from very different levels of effort or forms of program intervention. Recognition of this possibility should result in clearly listing and separately pricing performance outcomes attributable to different methods of delivery. When an agreement structures delivery under such an umbrella of opportunities, it is imperative that each kind of intervention be separately recognized and separately priced.

Example: An agency compensates all placements at a fixed amount (\$800 each). The agency should be prepared to receive varying results if it has written an “umbrella” contract that permits placements to result from different program activities. If the contract includes OJT, job search assistance (JSA), customized maturity skills/pre-vocational intensive services, and post-secondary individual referral slotting into vocational training, and each of these activities could result in placement of individuals enrolled in them, then the structuring of delivery in this manner encourages primarily the short-term, low-cost forms of intervention. Therefore, while the grantor agency might think it had priced delivery to reflect success from a balanced mix of activities, the inducement for the contractor seeking to maximize profit would be to overload enrollment in the two-week JSA course in order to ensure the lowest possible cost per placement.

Example: If provision of supportive services had been part of the mix in the above example, there may be additional consequences. Supportive service needs are unique for each individual participant, and the extent of their needs is difficult to forecast. Therefore, it would be a mistake to attempt to predict and build into the \$800-per-placement rate an average supportive service cost per participant served. The inducement generated by such an action would be for the contractor to avoid enrolling anyone who might be expected to need supportive services. Instead, the grantor should provide a separate pool of funds to cover estimated supportive services needs, available on a cost reimbursement basis only. Similar analysis for employer costs of providing OJT leads to a similar conclusion that, because the number of OJT opportunities, kinds of jobs, and rates of pay cannot be forecast, only the cost reimbursement form of compensation should be provided for recoupment of employer OJT costs.

- **Control of the Applicant Pool.** Performance-based contracts should entail sufficient risk to justify performance as the basis for compensation. Efforts to include reasonable performance risk in the contract can be nullified if the contractor is permitted to end-run the risks by recruiting and enrolling the most job-ready among the eligible population. Therefore, it is essential to include as part of the contract a profile of the kinds of individual educational, skill, and experience deficiencies that the grantor agency seeks to target and overcome in order to ensure delivery of real added value benefit. However, “[E]xcept where service to specific populations is authorized by Statute (such as WIA Section 166), it is unlawful under WIA Section 188(a)(2) and 29 CFR 37.6(b)(1-6) for One-Stop systems to use demographic characteristics to determine which individuals will receive services.” [WIA Final Rules, Preamble, published in the *Federal Register*, 65 Fed. Reg. 49294, 49344 (2000)]

Example: An agency enters into a fixed-price contract to provide job readiness activities to adult WIA participants. As part of the contract, the agency specifies that participants must meet the priority requirements of 20 CFR 663.600 as established by the state. In this way, the agency has assured that the low-income participants will be receiving the specified services, rather than individuals who qualify under the other WIA eligibility requirements.

- **Causation.** FP/PBCs can foster innovative delivery approaches and significant cost savings. However, care must be taken to ensure the likelihood that the activities being paid for are principally responsible for the delivery sought.

Example: An agency contracted for weekly delivery of not fewer than five bona fide job vacancies suitable for participants completing the training program. After paying for delivery over several months, the grantor began to notice a coincidence between what it was buying and want ads in local Sunday newspapers. In fact, it was paying premium prices for information otherwise available in the public domain. The resources the grantor had thought would be necessary for this project were not, in fact, meaningfully involved in causing delivery under the FP/PBC.

- **Third-Tier Delivery.** The core of work identified for delivery under performance contracts should be consistent with participant objectives intended to be achieved and compensated under the award. It is desirable that the core of the work be delivered directly by the awardee rather than permitting the awardee to broker the work through subagreements with other agencies (brokering OJT with employers is an exception). Additionally, if multiple tiers are enlisted, and each sub-tier absorbs resources, fund availability may be so depleted at the level where the core activity is actually provided that only short-term training intervention would be possible.

Example: An agency enters into an agreement to provide placement services to WIA Title I Adult participants. The subgrantee then enters into a number of subagreements for placements. The agreements are structured so that payments are made only for completion of the primary activity, i.e., placement in unsubsidized employment.

Another way in which third-tier delivery may be faulty is if the subgrantee claims compensation for performance based on lower-tier agencies actually providing uncompensated services that are readily available at no cost/lower cost to the subgrantee within the community.

Example: A FP/PBC between an agency and an LWIB specifies delivery of vocational training to result in specific achievement rates, including completions and training-related placements at a designated median wage rate. Results are to be compensated on incremental performance basis, with full delivery valued at \$1,200 per participant. Six months into the contract period, monitoring of the contract by the LWIB reveals that the agency has hired no one to teach the vocational classes from which it is claiming compensation for completions and placements. The monitoring further reveals that (1) the entity actually providing the training is the local community college; (2) tuition, fees, books, and supplies total less than \$200 per student; (3) all participants have been referred to the college by the agency; (4) the majority of participants are eligible for and receiving Pell grant assistance (U.S. Department of Education funds); and (5) according to interviews with a sample of participants, they all indicate having found their placements without assistance from the agency.

For-profit enterprises are entitled to retain earnings above costs attributable to their FP/PBCs. Profits should be allocated among the cost categories in proportion to the allocation of costs among the cost categories. For governmental and nonprofit agencies under WIA Title I (except Job Corps), however, earnings above costs are regarded as program income subject to reprogramming or remittance as provided by 29 CFR 95.24 or 29 CFR 97.25. A discussion of program income requirements is found in Chapter II-7, *Program Income*. Consequently, a provision is often included in FP/PBCs for governmental and nonprofit agencies limiting the recovery of costs to the lesser of actual costs incurred or the cumulative increments earned for less than full performance.

Auditing of FP/PBCs focuses on verification that the delivery for which costs were claimed and paid was sufficiently documented to justify its compensation, i.e., documentation of participant achievement is the primary object of verification.

Chapter II-11

Property Management

INTRODUCTION

This chapter provides guidance to program operators on the acquisition, management, and disposition of property acquired under ETA-funded programs. It contains the following sections:

- Real Property
- Equipment
- Federally Owned Equipment (Property)
- Exempt Property
- Supplies
- Intangible Personal Property
- Other Property Management Considerations
- Attachment II-11-1: Types of Property
- Attachment II-11-2: Application of Property Regulations

The types of property requirements discussed in this chapter relate to property acquired by grantees and subgrantees with ETA grant funds. As discussed further in this chapter, Federally owned property is not expected to be made available for use in these programs.

Charts showing types of property and application of property regulations are included at the end of this chapter as Attachments II-11-1 and II-11-2.

What the Regulations Require

For State, local, and Indian tribal governments, requirements governing the title, use, and disposition of equipment and supplies purchased with grant funds are the “Common Rule” requirements found at 29 CFR Part 97, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*. These requirements apply to governmental entities that are recipients or subrecipients of Federal grant funds. Nonprofit entities, institutions of higher education, and commercial organizations must follow the requirements found at 29 CFR Part 95. These requirements apply to both direct recipients and subrecipients.

In addition, the cost principles for governmental, non-profit and educational institutions include the following identical language which requires that, when approved as a direct charge pursuant to the provisions in each circular, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. (2 CFR Part 225, Appendix B.15.b(4), 2 CFR Part 220 Appendix A Section J.18.b(4) and 2 CFR Part 230, Appendix B.15.b(4)).

The Part 97 regulations address property requirements for governmental recipients and subrecipients at Sections 97.31 (Real Property), 97.32 (Equipment), 97.33 (Supplies), and 97.34 (Copyrights).

The Federal requirement that generally applies for recipients and subrecipients that are institutions of higher education, hospitals, and other nonprofit organizations are set out in the DOL regulations at 29 CFR Part 95. The property standards are found at Sections 95.30 through 95.37.

Nonprofit organizations subject to these regulations will, most often, be subrecipients that receive awards from higher tier recipients or subrecipients, or will be recipients under the competitive grant award process. Commercial organizations that receive grants and subgrants are also covered under Part 95. However, unlike Part 97, the Part 95 regulations do not use the terms “grantee” and “subgrantee.” Instead, only the term “recipients” is used. 29 CFR 95.5, *Subawards*, makes the Part 95 regulations applicable to subrecipients also. Therefore, in reading Part 95, the term “recipient” should be read to include the term “subrecipient.” This TAG section uses the term “subrecipient” throughout, although Part 95 applies equally to recipients and subrecipients.

Several provisions of the Part 95 regulations related to use and disposal of property require approval of the DOL Grant Officer. The authorizing regulations for most ETA grant programs have delegated this approval authority to the Governor for formula grantees only. The prior approval requirements for equipment acquisitions of \$5,000 or more are discussed more fully in 2 CFR Part 230, Appendix B.15.b(3).

For WIA formula-funded Adult, Dislocated Worker and Youth programs, the delegation of authority can be found at 20 CFR 667.200(c) which delegates authority to the Governor for those selected items of cost requiring prior approval. For the Wagner-Peyser program, the regulations at 20 CFR 652.8(d)(2) delegate prior approval authority to the state except that the Secretary reserves the right to require transfer of title on nonexpendable Automated Data Processing Equipment (ADPE) in accordance with the provisions of 29 CFR 97.32(g). The Secretary reserves the right to exercise prior approval authority in other areas, after providing notice to the state. For the Unemployment Insurance program, the delegation of authority for prior approval of equipment purchases to the State Administrator is included in the annual state funding agreement in Part VII Assurances, Paragraph B.2.d.

REAL PROPERTY

The rules for the title, use, and disposition of real property are established at 29 CFR 97.31 and 29 CFR 95.32. The provisions state that title to the property is vested in the grantee acquiring the property and may not be encumbered without the express permission of the ETA. Nongovernmental grantees may also request written permission from the ETA to use the property for another Federally funded program (equity remains with the DOL) when it is no longer needed for the specific grant purpose of acquisition. Both governmental and nongovernmental grantees must request disposition instructions from the ETA when these conditions no longer apply. The ETA may instruct the grantee to sell the property under guidelines provided by the ETA and reimburse the Government for its equity share of the proceeds, or the grantee may retain title to the property after compensating the ETA for its equity share, among other options. For ETA grant programs such as Wagner-Peyser or TAA, these regulations and the specific program regulations apply to the acquisition, use, and disposition of real property.

With limited exceptions, the purchase or construction of real property is prohibited for the WIA Title I program [20 CFR 667.260] unless specific conditions are met and the expense is specifically authorized by the ETA. For WIA Title I programs, these exceptions are

- Requirements for physical and programmatic accessibility and reasonable accommodation as required by the Americans with Disabilities Act (ADA) of 1990 and the Rehabilitation Act of 1973, as amended
- To fund repairs, alterations, and capital improvements of State Employment Service Agency (SESA)-owned real property or JTPA-owned property transferred to the WIA Title I program
- Job Corps facilities
- To fund disaster relief employment projects.
- The YouthBuild Program, authorized by Section 173(a) of the WIA, allows for the purchase of a structure, at the current fair market value prior to rehabilitation, for the sole purpose of training YouthBuild participants.

Capital improvement costs are also governed by the allowable cost standards found in the OMB circulars, which require prior approval of the grantor agency and specify the treatment of

costs. Renovations or tenant improvements of One-Stop center facilities would fall under the cost principles. Thus, for One-Stop improvements, two options exist: (1) the partner programs fund their fair share of the cost at the time the cost is incurred, or (2) one of the partner entities (not a program) pays for the improvement and recover its costs through a depreciation schedule.

EQUIPMENT

Equipment is defined at both 29 CFR 97.3 and 95.2 as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit, including all costs related to the property's final intended use. Grantees may use their own definition of "equipment" provided it meets the minimum standards discussed above. The prior approval requirements for capital asset acquisitions of \$5,000 or more are discussed in 2 CFR Part 230, Appendix B.15.b(3).

States

29 CFR 97.32(a) establishes that title to equipment vests, upon acquisition, in the recipient or subrecipient, i.e., whoever acquired the equipment. As to use and disposition, no requirements are imposed on state recipients and subrecipients beyond the following: "A state will use, manage, and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures..." [29 CFR 97.32(b)] This provision intends for state requirements applicable to equipment acquired with both WIA and other ETA-funded grants to be the same as for equipment acquired with other Federal grant funds or with state funds. State recipients and subrecipients have no obligation to the Federal government for WIA- and ETA-grant-funded equipment they acquire beyond compliance with state standards for the use, management, and disposition of equipment.

Other Governmental Entities

With respect to equipment acquired with ETA-funded grants by governmental recipients/subrecipients other than states, the Federal standards contained in paragraphs (c) through (e) of 29 CFR 97.32 apply. Those Federal standards provide that the acquiring entity must use the equipment in the program or project for which it was acquired as long as it is needed, whether or not the project or program continues to be supported by Federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a Federal agency. The acquiring entity must make the equipment available for use on other projects or programs currently or previously supported by the Federal government, to the extent that such use will not interfere with its use in ETA grant programs. Preference for other use shall be given to programs or projects supported by the DOL. User fees should be considered, if appropriate, and treated as program income. [29 CFR 97.25] The equipment cannot be used to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by Federal statute. With the approval of the awarding agency, the acquiring agency may trade in or sell equipment and use the proceeds to purchase replacement equipment.

The acquiring agency must meet the following minimum equipment management standards:

- Property records must be maintained that include the following data for each piece of equipment: description; serial number; funding source of property; title holder; acquisition date and cost; percentage of Federal participation in the cost; location, use, and condition of the property; and ultimate disposition data including date of disposal and sale price.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- A control system must be developed to ensure adequate safeguards to prevent loss (including acts of nature such as floods and earthquakes), damage, or theft of the property. Any loss, damage, or theft must be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.
- If property is sold, proper sales procedures must be established to ensure the highest possible return.

If equipment with a current per-unit fair market value of \$5,000 or more is no longer needed for the original project or program (or for other activities currently or previously supported by a Federal agency), it may be retained or sold and the awarding agency compensated. The awarding agency's share of the proceeds is determined by multiplying the current market value (or the proceeds) by the awarding agency's share of the equipment. The awarding agency may dispose of the equipment if the acquiring agency does not take appropriate action.

Equipment items with a current per unit fair market value of less than \$5,000 may be kept, sold, or disposed of with no obligation to the awarding agency.

29 CFR 97.32 establishes the right of the Federal government to take title to equipment acquired with grant funds or to direct the transfer of title to a third party. Specific requirements to implement that right are specified in paragraph (g). There is no provision that extends this right of the Federal government to lower levels, i.e., recipients or subrecipients; however, there is also no prohibition against extending this right. WIA and other ETA-funded entities may wish to explore this avenue on a case-by-case basis.

Nongovernmental Entities

Equipment is tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit that was charged directly to the grant or subgrant. If the cost of the equipment was not charged directly to the grant or subgrant at the time of acquisition, but depreciation expense is being charged over the useful life of the asset, or a use allowance is being charged, such equipment does not fall under the requirements of Section 95.34. For nonprofit organizations, the allowable cost guidelines in 2 CFR Part 230 Appendix B

Item 11, *Depreciation and Use Allowances*, would apply. For other nongovernmental organizations, the appropriate cost principles apply.

Title to nonexempt equipment acquired with Federal funds vests in the subrecipient, subject to the use and disposition conditions of 29 CFR 95.34(b) through (g). The subrecipient has the right to use the property in the project for which it was acquired as long as it is needed, whether or not the project continues to be supported by ETA grant funds. When no longer needed for the original project, the subrecipient shall use it in connection with its other Federally sponsored activities. Priority shall be given to other activities sponsored by the ETA. [29 CFR 95.34(c)(1)]

While the equipment is being used for the project for which it was originally acquired, the subrecipient shall make it available for other uses that do not interfere with project work. First preference will be given to other ETA-sponsored projects, with second preference to other Federally supported activities. User charges shall be treated as program income. [29 CFR 95.34(d)] The subrecipient shall not use equipment acquired with grant funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, for as long as the Federal government retains an interest in the equipment. [29 CFR 95.34(b)]

The acquiring agency must meet the following minimum management standards. These standards are similar to those required of non-state governmental entities.

- Equipment records must be maintained that include the following data on the equipment: description; identification number; funding source; title holder; acquisition date; percentage of Federal participation in the cost; location, condition, and last inventory date; acquisition cost; and ultimate disposition data including date of disposal and sale price or current fair market value, including the method used to determine the value.
- A physical inventory of the equipment must be taken and the results reconciled with the equipment records at least once every two years. The subrecipient must verify the existence, use, and need for the equipment.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the equipment in good condition.
- If equipment is sold, proper sales procedures must be established that provide for competition to the extent practicable and that result in the highest possible return. (When acquiring replacement equipment, the subrecipient may use the old equipment as a trade-in or use the sale proceeds to offset the cost of the replacement equipment, subject to written approval of the DOL Grant Officer.)

When the equipment is no longer needed, the subrecipient must comply with the following standards. For equipment with a current per-unit fair market value of less than \$5,000, Part 95 is silent, i.e., the subrecipient has no further obligation to the DOL or the awarding agency. For property with a current per-unit fair market value of \$5,000 or more, the subrecipient may retain the property for other uses, provided that compensation is made to the DOL. The subrecipient shall compute amounts due to the ETA by applying the percentage of ETA participation in the cost of the original grant or agreement under which the property was obtained to the current fair market value of the property. If the subrecipient has no further use for the property, disposition instructions are to be requested of the ETA. The following procedures, as prescribed in 29 CFR 95.34(g)(1) through (4), will apply:

- If so instructed, the entity will sell the equipment and reimburse DOL for its percentage of participation. The recipient may retain up to 10 percent or \$500, whichever is less, for selling and handling expenses.
- If instructed to ship the equipment elsewhere, the recipient is reimbursed according to its percentage of participation, plus shipping and interim storage costs.
- If instructed to otherwise dispose of the equipment, the recipient is reimbursed for all costs of disposition.
- DOL reserves the right to transfer the title to the equipment to DOL or a third party.

FEDERALLY OWNED EQUIPMENT (PROPERTY)

29 CFR 97.32(f) states that, if a grantee or subgrantee uses Federally owned equipment, title will remain vested in the Federal government. Federal agency rules will apply to its use, management, and disposition. Federal equipment is not expected to be made available for WIA program activities, with the exception of some Job Corps contracts.

29 CFR 95.33(a) states that, if a subrecipient is provided Federally owned property, title will remain vested in the Federal government, an annual inventory will be provided the DOL, and the Grant Officer will decide disposition. Federal property is not likely to be made available for WIA activities.

EXEMPT PROPERTY

Exempt property is defined in 29 CFR 95.2(p), which states “Exempt property means tangible personal property acquired in whole or in part with Federal funds, where DOL has statutory authority to vest title in the recipient without further obligation to the Federal Government.” No Federal statute applicable to ETA programs currently provides this authority.

SUPPLIES

For states and other governmental entities, supplies are defined at Section 97.3 as “all tangible personal property other than equipment...” 29 CFR 97.33 provides standards for

supplies that apply to both states and other governmental recipients and subrecipients. It states that title to supplies acquired under a grant or subgrant vests in the recipient or subrecipient, respectively. As to disposition, this regulation indicates that the recipient or subrecipient shall compensate the awarding agency for its share of the residual inventory of unused supplies if the inventory exceeds \$5,000 or more in aggregate fair market value when the award is terminated or completed and if the supplies are not needed for any other Federally sponsored programs or projects. Aggregate value is the total value of all remaining supplies (e.g., pencils, paper, printer ink, etc.). Supplies are not to be used to provide services to non-Federal outside organizations for a fee that is less than that charged by private companies for equivalent services.

For nongovernmental organizations, supplies are defined at 29 CFR 95.29(11) as “all personal property, excluding equipment, intangible property, and debt instruments...and inventions...” 29 CFR 95.35 provides the standards for supplies. Upon acquisition, title vests in the subrecipient subject to management and disposition conditions. The subrecipient must maintain sufficient records to determine the amount of unused supplies on hand at the termination of the award. The subrecipient must compensate the DOL for its share of the residual inventory if the inventory is \$5,000 or more in aggregate value upon termination or completion of the award and if the supplies are not needed for any other Federally sponsored programs or projects.

INTANGIBLE PERSONAL PROPERTY

Copyrights

29 CFR 97.34 states that the Federal awarding agency reserves a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, and otherwise use, and authorize others to use, for Federal government purposes:

- The copyright in any work developed under a grant, subgrant, or contract under a grant/subgrant
- Any rights of copyright bought with grant funds by a grantee, subgrantee, or contractor.

Note: The Federal right in this instance does not “pass through” to contractors.

For nongovernmental entities, 29 CFR 95.36 specifies that the subrecipient may copyright work developed or for which ownership was purchased under an award. DOL has a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, and otherwise use (and authorize others to use) the work for Federal purposes.

When such property is developed with the use of ETA grant funds, it is to be made available to any other entity requesting to use the copyrighted materials in a Federally funded program without a licensing fee. Incidental costs of packaging, shipping, handling, etc., may be charged. If the materials will be used for other than Federally funded activities, the developing organization may charge a license fee. The income realized from the sale or licensing of

copyrighted materials is not considered as program income unless specified as provided in 29 CFR 97.25(e) for state and other governmental entities and at 95.24(e) for nongovernmental entities. This is more fully discussed in 29 CFR 95.24 and 97.25, *Program Income*.

Intellectual Property Rights

For ETA grants, the government reserves a paid-up, nonexclusive and irrevocable license to reproduce, publish, or otherwise use, and to authorize others to use for Federal purposes: i) the copyright in all products developed under the grant, including products developed through a subcontract under the grant; and ii) any rights of copyright to which the grantee, or a contractor purchases ownership under an award (including but not limited to curricula, training models, technical assistance products, and any related materials). Such uses include, but are not limited to, the right to modify and distribute such products worldwide by any means, electronically or otherwise. The grantee may not use federal funds to pay any royalty or license fee for use of a copyrighted work, or the cost of acquiring by purchase a copyright in a work, where the Department has a license or rights of free use in such work.

Creative Common Licenses. In order to further the goal of career training and education and encourage innovation in the development of new learning materials, some discretionary grants, such as the Trade Adjustment Assistance Community College and Career Training Grants, will be required to license to the public (not including the Federal Government) all work created with the support of the grant (“Work”) under a Creative Commons Attribution 3.0 License (“License”). This License allows subsequent users to copy, distribute, transmit and adapt the copyrighted work and requires such users to attribute the work in the manner specified by the Grantee. Notice of the License shall be affixed to the Work. General information about Creative Commons 3.0 Licenses is available at <http://creativecommons.org/licenses/by/3.0>.

Inventions and Patents

Regulations applicable to nonprofits and small businesses are issued by the Department of Commerce at 37 CFR Part 401. Property requirements for inventions and patents are specifically treated in 29 CFR Part 95.36 only. The ETA does not anticipate that inventions and patents will be associated with these programs.

Data

Under 29 CFR 95.36(c), the DOL has the right to obtain, reproduce, publish, or otherwise use data first produced under an award and to authorize others to do the same for Federal purposes.

Title, Use, and Disposition

For nongovernmental entities, title to intangible property vests in the subrecipient upon acquisition. Use is restricted to the originally authorized purpose, and the subrecipient must follow the provisions of 29 CFR 95.34(g) for disposition and DOL compensation. There is no similar provision for Governmental grantees.

Note: The Federal right in these instances does not pass through to vendors. Grantees and subgrantees must include such rights in the agreement with vendors, should there be a need.

OTHER PROPERTY MANAGEMENT CONSIDERATIONS

General Guidance Regarding Leasing

The decision to rent or buy personal property must be governed by considerations of economy. Considerations may differ by property type and according to market conditions. Thus, leasing generally is the least economical method of obtaining required equipment. Leasing with an option to purchase is generally preferable to straight leasing.

However, for real property, administrative requirements make leasing the only option, as the construction or purchase of real property is not allowed under the WIA program except in certain limited circumstances. Permissible leases of real property are limited to operating leases, not capital leases. Capital leases are arrangements that result in the ownership of property and are therefore treated by Federal cost principles as purchases. As such, WIA Title I funds may not be used for lease payments under capital leases involving real property. In addition, subrecipients may not, with certain exceptions discussed in the following paragraph, charge fair market rent or lease rates to the WIA program for their own real or personal property used in the program or lease from other activities in which they have a vested interest or which has interest vested to them. [2 CFR Part 230] They may recover these costs only through depreciation. Recovery of costs through use or depreciation allowances is treated in the appropriate cost principle depending on the type of entity. 2 CFR Part 220, Cost Principles for Educational Institutions, Part 225, Cost Principles for State, Local and Indian Tribal Governments, and Part 230, Cost Principles for Nonprofit Organizations contain specific requirements used to establish allowable use allowances and depreciation amounts, based on a variety of factors including useful life of facilities, and any previous depreciation borne by the Federal government. For additional information on depreciation and use allowances, see below. These provisions are found in 2 CFR Part 220, Appendix A, Section J.14; Part 225, Appendix B.11; and Part 230, Appendix B.11. Provisions addressing capital leases and less-than-arm's length agreements are found in 2 CFR 220, Appendix A, Section J.43 *Rental Costs of Buildings and Equipment*; Part 225 Appendix B.37; and Part 230, Appendix B.43.

However, less-than-arm's-length leases are allowable up to the amount that would be allowed had title vested in the organization. [2 CFR Part 220, Appendix A, Section J.43(c), Part 225, Appendix B.37(c), and Part 230, Appendix B.43(c)]. The relationship the amount of the lease bears to fair market value will vary. A less-than-arm's-length lease is one in which one party to the lease is able to control or substantially influence the actions of the other. Grantees and subgrantees are urged to carefully review any lease agreement, including One-Stop centers, to ensure that the lease is in compliance with the applicable requirements.

Depreciation and use allowances are means of allocating the cost of fixed assets (e.g. buildings and equipment) to the time periods benefitting from their use. The specifics regarding

the calculations of these amounts can be found in the relevant cost principles, including what may and may not be included. In general, they are based on the acquisition cost of the asset. The computation of depreciation includes the total period of useful service of the asset. Use allowances are generally computed based on a percentage of the allowable acquisition cost, up to two percent annually for buildings and improvements, and up to six and two-thirds percent annually for equipment. Depreciation can be used by a grant recipient or One-Stop partner, for example, to recover a portion of their costs for the acquisition of a building through a capital lease, or for capital improvements or other such costs that would not otherwise be allowable as a direct cost to the grant. Depreciation may also be used to recover a portion of the costs of equipment which was not authorized to be purchased outright under the grant. The grant can only be charged depreciation or a use allowance for the portion of the useful life of the asset that benefits and falls within the grant period, but not for the portion that extends beyond. When depreciation and use allowances are used, they must be supported by adequate property and financial records.

Types of Property			
Real	Personal		
Land, including land improvements, structures, and appurtenances thereto, but excluding moveable machinery and equipment (not allowable under the WIA program)	Tangible		Intangible
	Nonexpendable (Equipment)	Expendable (Supplies)	Without physical existence: patents, trademarks, or copyrights that are produced or acquired under the grant
	Useful life of more than one year and a unit acquisition cost of \$5,000 or more	All else	

Note: Debt instruments and inventions are tangible property and are specifically excluded from the supplies category.

Application of Property Regulations		
Relationship Type	Kind of Organization	Applicable Regulations
Recipient/Subrecipient	States	29 CFR Part 97 Equipment 97.32 Supplies 97.33 Copyrights 97.34
Recipient/Subrecipient	Local Governments	29 CFR Part 97 Same as above
Recipient/Subrecipient	Nonprofits, Hospitals, and Institutions of Higher Learning	29 CFR Part 95 Equipment 95.34 Supplies 95.35 Intangible Property 95.36
Subrecipient/Recipient Direct Contractor	Commercial Entities	29 CFR Part 95 (same as above) 48 CFR Part 31

Chapter II-12

Audits and Audit Resolution

INTRODUCTION

This chapter provides guidance and procedural suggestions on ETA audit requirements; the resolution of audit findings, both questioned costs and administrative deficiencies; administrative appeals; and audit-resolution and related requirements characteristic of the WIA. It contains the following sections:

- Audits
- Audit Resolution
- Stand-In Costs and Audit Resolution
- Appeals
- Additional WIA Considerations
- Attachment II-12-1—Audit Review Checklist for Single Audits
- Attachment II-12-2—ETA Audit Resolution Flow Chart
- Attachment II-12-3—Matrix of Standardized Letters.

AUDITS

Every recipient and subrecipient organization that expends \$500,000 as of December 31, 2003 or more in Federal financial assistance funds (received from all Federal sources combined) during its fiscal year to operate one or more programs must undergo an audit. Commercial organizations directly funded by DOL are covered by the regulations at 29 CFR 96.32, which specify that the DOL has responsibility for audits of organizations not subject to the audit requirements of the Single Audit Act (SAA) Amendments of 1996. WIA 20 CFR 667.200(b)(2)(ii) requires that commercial organizations that are subrecipients under Title I that expend more than the \$500,000 threshold of OMB Circular A-133 conduct either an organization-wide or a program-specific audit.

A recipient, whether a state, local area, or other direct ETA grantee, that passes down funds to a subrecipient must ensure that the entity receiving the funds has an audit conducted if the entity meets the \$500,000 expenditure threshold.

The Federal Chief Financial Officers' Council has developed a pamphlet and a brochure to provide additional guidance to Federal grant agencies and grantees/subgrantees subject to the requirements of the SAA. The documents provide grant recipients and Federal agencies with information on audit requirements, submittals, and contacts for additional information. The

documents are available on the DOL Office of the Inspector General (OIG), Office of Audit Web site at http://www.oig.dol.gov/public/programs/oa/single_audit/main.htm.

Audit Requirements

To establish uniform requirements for audits, Congress enacted the SAA Amendments of 1996 (PL 104-156). This legislation combined previous audit requirements into a single requirement applicable to all recipients of Federal financial assistance, regardless of the type of organization. OMB Circular A-133 was issued to implement the requirements of the SAA, which have been codified for DOL programs at 29 CFR Part 99 and require the following:

- Each entity that expends \$500,000 or more of Federal funds including program income under more than one Federal program in any fiscal year must obtain an independent organization-wide financial and compliance audit (single) of such fiscal year.
- Any entity that expends \$500,000 or more under only one Federal program that is not subject to a requirement for a financial statement audit may elect to have a program-specific audit.
- The audits are to be submitted within one month after receipt of the auditor's report or no later than nine months after the end of the auditee's fiscal year. Audit reports are submitted to the Federal clearinghouse in accordance with 29 CFR 99.320. The submission requirements are discussed in detail later in this chapter.
- Recipients of Federal financial assistance funds must also ensure that all subrecipients, including local area grantees, comply with subrecipient audit requirements, such as having a timely audit in accordance with the requirements of the SAA.
- The DOL is responsible for the audit of commercial organizations that function as direct recipients of ETA grants at the discretion of the Secretary. The Secretary also has the discretion to conduct audits of commercial entities that are subrecipients. [29 CFR 96.32] In addition, OMB Circular A-133, Section 210(e), states that, when a commercial organization is a subgrantee of state, local government, or nonprofit agency funded by Federal funds, then the audit responsibilities must be specified in the agreement and may include "post-award audits." Also, under WIA, certain subrecipient commercial organizations must follow the requirements specified at 20 CFR 667.200(b)(2)(ii).

There are no Federal audit requirements for the following:

- Any entity that expends less than \$500,000 in Federal awards in a fiscal year, and
- Any entity that receives Federal funds exclusively as a vendor, regardless of funding level.

Chapters 3, 4, and 5 of the July 2007 *Government Auditing Standards*, commonly referred to as the General Accounting Office (GAO) "Yellow Book" and issued by the Comptroller General of the United States, provide general standards as well as the standards for field work and reporting for financial audits. The same chapters may also be used as guidance for the financial and compliance coverage included in an organization-wide audit. Chapter 3

indicates that auditors are to choose and conduct auditing tests that, in their professional judgment, are appropriate to achieve the audit objectives and are designed to obtain sufficient, competent, and relevant evidence of a reasonable basis for their opinions, judgments, and conclusions. Chapter 4 indicates that auditors should design the audit to provide reasonable assurance of detecting misstatements that have a direct and material effect on the financial statements. To accomplish this, the auditors should obtain a sufficient understanding of internal control to determine the nature, timing, and extent of the audit steps, tests, and procedures needed to assess the risk of noncompliance with laws and regulations. Chapter 5 indicates that auditors should include a written report on the scope of their testing of compliance with laws and regulations and of internal control over financial reporting. They are also to indicate whether the tests they performed provided sufficient evidence to support an opinion on compliance or internal control.

The 2007 Yellow Book also contains clarified and streamlined discussion of the impact of professional services other than audits or attestation engagements (nonaudit services) and their impact on auditor independence. Chapter 3, General Standards, details the overarching principles of auditor independence. The most recent revisions contain fundamental changes from the 2003 revision to enhance principles of transparency and accountability, provide the framework for high-quality government audits, and heightened the emphasis on ethical principles as the foundation, discipline, and structure behind the implementation of the standards. The July 2007 revision of Government Auditing Standards becomes effective for all audits of the periods beginning on or after January 1, 2008. The Yellow Book and the new standard may also be accessed on the GAO Web site at <http://www.gao.gov/govaud/ybk01.htm>. Currently, GAO has published for comment a 2010 Exposure draft of changes to the Government Auditing Standards (The Yellow Book). Proposed changes fall in the areas of (1) ethics and independence, (2) professional judgment and competence, (3) quality control and assurance, (4) all types of GAGAS audits and attestation engagements, (5) internal auditors, (6) financial audits, (7) attestation engagements, (8) performance audits, and (9) guidance material.

Management and the Audit Environment

Auditing firms perform various types of audits. The audited organization must ensure that the audit it obtains meets the standards required for the organization and should specify to the auditing firm the type of audit required. For ETA-funded entities subject to audit requirements, the only type of audit report that is acceptable is the single audit unless the entity receives funds under only one Federal program. In such instances, the entity may elect to have a program-specific audit conducted in accordance with 29 CFR 99.235.

Single Audit. An audit that meets SAA standards is to include:

- The entity's financial statements
- The schedule of expenditures of Federal awards
- The schedule of prior audit findings
- The auditor's opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects

- The auditor's opinion (or disclaimer) as to whether the schedule of expenditures of Federal awards is presented fairly
- The auditor's report on the entity's internal control related to the financial statements and major programs
- The auditor's report on the entity's compliance with laws, regulations, and the provisions of contracts or grant agreements
- A schedule of findings and questioned costs.

The auditee must also prepare a corrective action plan and submit the plan with the audit reporting package.

Attachment II-12-1 to this chapter is an audit review checklist that can be used as a desk review instrument to determine the adequacy of the audit. When an entity elects to have a program-specific audit, it should check on the availability of a program-specific audit guide. When available, auditees and their independent auditors should obtain a copy of the guide and utilize it to ensure that the report is consistent with basic requirements. Whether a single audit or a program-specific audit is conducted, grantees and their auditors may wish to review the OMB compliance supplements applicable to their particular ETA-funded program. These supplements are available for most major Federal programs through OMB. The Web site for OMB compliance supplements is listed in Appendix C.

Vendors

It would be inaccurate to say that a vendor will not be audited simply because the entity provides ETA or an ETA-funded grantee with goods or services under, for example, a procurement contract. An entity may be subject to the SAA requirements as a result of its non-vendor status as a recipient or subrecipient of another Federal award. An SAA audit is an audit of expenditures under all the Federal awards received by an entity from all sources. Specifically, the SAA audit requirement for a particular entity is a function of the total of all expenditures under Federal awards received. If an entity is subject to an SAA audit, the ETA funds it receives are subject to audit, whether they are received through a grant or a contract, and regardless of the grant/contract amount or vendor relationship. The scope of an SAA audit is not limited simply to the expenditure of funds. The ETA-funded procurement contract may be selected as a transaction for testing in an audit of a government entity, an educational institution, or a nonprofit organization. In addition to testing to ensure that payment was made for deliverables provided, the transaction may also be selected for internal control and compliance testing. Thus, a finding relating to ETA could appear in an audit report even though the audit was not required by ETA based on the type of agreement or the amount of ETA-funded dollars received.

If a vendor is subject to an audit under the SAA, it may be advantageous and prudent from a management perspective to receive a copy of any audit report for that entity that covers ETA funds and internal controls of the organization, to ensure there are no findings related to ETA-funded projects. It would allow the agency providing funds more time to take corrective action and could mitigate the seriousness of a finding and reduce the amount of funds involved.

Auditee (Grantee/Subgrantee) Responsibilities

Grantees and subgrantees subject to the audit requirements of 29 CFR 99.200 are responsible for a number of activities related to the audit process. Under the provisions of 29 CFR 99.300, they must:

- Identify, in their books of account, all Federal awards received and expended and the Federal program(s) under which they were received
- Maintain internal control over Federal programs to assure compliance with applicable laws and regulations (see also 29 CFR 97.20 and 95.21)
- Comply with laws and regulations related to each Federal program
- Prepare financial statements. The requirements for financial statements are found at 29 CFR 99.310.
- Ensure that required audits are properly performed and reports are submitted on time with all the required documents
- Follow up and take appropriate corrective action for audit findings. This includes preparation of a schedule of prior audit findings and a corrective action plan.

Grantees and subgrantees are responsible for obtaining the services of independent auditors in accordance with applicable procurement procedures. Audit firms that prepared indirect cost proposals or cost allocation plans (CAPs) are prohibited by OMB from performing the organization-wide audit when the indirect costs recovered by the auditee during the prior year exceeded \$1,000,000. It is also suggested that grant recipients or subrecipients avoid using an audit firm already under contract to assist the organization in developing CAPs or indirect cost rate proposals, as this may give the appearance of a conflict of interest.

Each grantor agency is responsible for ensuring that the requirements of 29 CFR Part 99 are implemented by each of their subrecipients that expend \$500,000 or more in Federal award funds and that the audits of subrecipients are completed and findings resolved within six months of receipt of the audit report.

As part of its audit responsibilities, each auditee is responsible for follow-up and corrective action on all audit findings. 29 CFR 99.315(b) requires that each auditee prepare a summary schedule of prior audit findings that includes:

- All prior audit findings with a statement that they were either fully corrected or giving the current status of any corrective action
- An explanation, if the corrective action taken varies significantly from the planned action stated in the prior corrective action plan or any resolution document
- Reasons that the auditee believes prior audit findings are no longer valid or does not warrant further action.

In addition, the auditee must prepare a corrective action plan for each audit finding in the current audit. This corrective action plan must include the name of the person responsible for corrective action, the planned action, and an anticipated completion date. If the auditee disagrees

with the audit finding, an explanation and specific reasons must be included in the plan. The summary schedule and corrective action plan must be included with the audit report as part of the total audit package submitted to the Federal clearinghouse.

Audit reports must be submitted within nine months of the end of the organization's audit period or 30 days after receipt of the auditor's report. The requirements for submission of audit reports are found at 29 CFR 99.320, which requires that each auditee submit a data collection form and reporting package consisting of the financial statements and schedule of Federal expenditures, the auditor's required reports, the summary schedule of prior years' findings, and the corrective action plan, as specified at 29 CFR 99.320(b). The entire reporting package is submitted to the Federal clearinghouse for acceptance and distribution to all affected Federal agencies. The auditee is responsible for providing an adequate number of copies of the reporting package. If the auditee is also a subrecipient of Federal funds, it must submit a copy of the reporting package to each entity from which it received an award of Federal funds, if the audit includes findings related to the pass-through funds received.

AUDIT RESOLUTION

Ensuring Integrity of Resolution Documents

Audit reports are recommendations to management and may not include all the information on which a resolution action will be based. Occasionally, the proper, best, and/or most appropriate citation related to the issue is not included in the audit report. At other times, no citations are provided. The resolution official must ensure that all appropriate bases for a determination on the audit findings are included in the resolution documents. In addition, at times information in an audit report will raise other issues (including other potential questioned cost issues) that should be pursued by the resolution official. The audit as a whole and the ramifications of each finding must be thoroughly understood so that each audit can be resolved appropriately on an individual basis.

The administrative decision of an awarding agency to sustain or to reject the findings contained in an audit report of its subrecipient is termed an audit resolution. The document issued to the subrecipient/auditee formally describing such findings and detailing such decision is often referred to as the findings and determinations (FD). Whether such decision involves disallowance of costs questioned in the audit report, or non-monetary administrative findings, the awarding agency must identify an appropriate course of action to remedy the deficiency or variance. The remedy it selects to include in the FD may be thought of as a sanction. Thus, issuance of an FD may be thought of as a decision with sanctions, and it must be accompanied by a notification of a right to appeal.

It is imperative to recognize the distinction between the resolution decision and the remedy or sanction. As explained later in this chapter, acceptance of stand-in costs is a resolution decision, not a remedy or sanction.

ETA's Responsibility for Audit Resolution

The ETA must resolve all findings presented in recipient-level audit reports as well as the DOL OIG audit reports. OMB Circular A-50 and 29 CFR Part 96 require Federal agencies to establish systems to ensure proper resolution and corrective action on audit recommendations. The ETA audit resolution process is described in 29 CFR Part 96, Subpart E.

Additional audit resolution provisions applicable to WIA programs are described in 20 CFR 667.510. These provisions mirror the Initial and Final Determination process described below and also cover the ETA process for resolving monitoring and other oversight findings. 20 CFR, Part 667, Subpart E, also addresses state responsibilities, sanctions, and appeals processes, which are addressed later in this chapter as well as in Chapter II-13, *Disposition of Disallowed Costs*.

Resolution Responsibility Rests with the Awarding Agency

Under 29 CFR 99.400, there is a requirement that a management decision be issued within six months after receipt of an audit report. The responsibility for resolving all findings related to ETA-funded programs and funds rests with the awarding agency. ETA is responsible for audits of its direct recipients. Each awarding agency below the Federal level that awards funds to lower-tier subrecipients is responsible for the resolution of findings in the audits of their subrecipients. Audit findings, including administrative findings, must be resolved within six months after receipt of the audit report. This does not necessarily mean that corrective action will have been fully completed or that disallowed costs will have been paid within the same six-month period.

Federal-Level Audit Resolution

Both Federal and non-Federal audits of entities that receive ETA funding directly from the DOL will be resolved by the ETA Grant Officer. These entities may be state or local government agencies, nonprofit institutions, or commercial organizations. The resolution process begins when ETA receives the audit report from the OIG.

Under 29 CFR 99.320, auditees are required to submit copies of the audit report package and the data collection form to the Federal audit clearinghouse. The clearinghouse is responsible for providing the package to the DOL Inspector General for Audit, who will issue the report to ETA for resolution after it has been found acceptable.

The DOL ETA resolution process is described in 29 CFR Part 96 and includes:

- Pre-resolution activities (report submission and quality control)
- Initial Determination
- Informal resolution period
- Final Determination
- Right to appeal within 21 days.

The resolution process to be followed by the Grant Officer for direct WIA-funded recipients is found at 20 CFR 667.510. This same process is used when the Grant Officer is dissatisfied with the state's resolution of a subrecipient level audit. Additional WIA requirements are also addressed further in this chapter. A schematic depicting the flow of Federal-level audit resolution is provided in Attachment II-12-2. Each of the steps is also described in the following section on non-Federal audit resolution.

When the audit of a direct recipient includes coverage of and findings on subrecipient organizations, such as a State Department of Education, the ETA will ordinarily resolve such findings as part of its resolution activities with the direct recipient.

Non-Federal Audit Resolution

Each entity that awards Federal funds to a subrecipient is responsible for issuing a management decision on all audit findings that relate to its award within six months after the receipt of the subrecipient's audit report and for ensuring that the subrecipient takes appropriate and timely corrective action. There is no specified format for the management decision, but it must state clearly whether the audit finding(s) is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other corrective action. Thus, the management decision process constitutes audit resolution.

Non-Federal audit resolution responsibility rests with each entity that directly awards ETA funds to a subrecipient. The state must resolve all audits of LWIAs and any other direct subrecipients, such as project operators under the Governor's reserve or set-aside funds. LWIAs are responsible for resolving audits of their service providers/direct subrecipients. Lower-tier service providers that award funds to subrecipients are responsible for resolving audits of those entities. Other direct ETA grantees are responsible for resolution of audits for their direct subrecipients, and the lower-tier subrecipients, for resolving audits of service providers as the service delivery arrangements in each grant warrant.

As no specific process is mandated, the audit resolution process used for individual grantees may vary. However, the resolution process must accomplish the following:

- Determine the need for and ensure the implementation of corrective action for all findings that impact the program
- Allow or disallow all questioned costs and provide the basis for each such determination
- Determine whether allowable stand-in costs were reported and included within the audit scope, meet the fiscal year requirements, and are available to substitute for disallowed costs
- Establish a debt (where appropriate) and indicate the method of repayment planned or required
- Provide the auditee/subrecipient with its appeal rights.

The suggested audit resolution system described in the following paragraphs is patterned after the Initial and Final Determination process used at the Federal level. This process may be used at the state, LWIA, other direct ETA grantee, or all other subrecipient levels.

Pre-Resolution. Before starting resolution, the awarding agency (resolution agency) should verify the acceptability of the audit report. Although the auditee must ensure that the audit it obtains meets the standards required for the organization, the awarding agency may wish to do its own check. Attachment II-12-1 to this chapter is an audit review checklist that may be used as a desk review instrument to determine the adequacy of the audit.

Controls Related to Audit Resolution. Upon receipt of the final audit report, specific controls should be established to ensure that resolution takes place within required time frames. It is suggested that an audit control log be maintained to include the following:

- Date of audit
- Period covered by audit
- Date received
- Auditor
- Questioned costs (number of findings and amounts)
- Administrative findings (number of findings)
- Assigned audit number
- Date(s) Initial and Final Determination(s) scheduled, issued, and appealed.

Suggested Procedure for Resolving Audit Report Findings. This three-part process is the same process used by the DOL to resolve audits of direct recipients of ETA funds. The specific guidelines are found at 29 CFR 96.53 and, for WIA recipients, at 20 CFR 667.510. They include the Initial Determination, an informal resolution period, and the Final Determination. All these must be accomplished within six months of receipt of the final audit report. It is recommended that the awarding agency give the auditee/subrecipient a copy of the audit report and allow a reasonable time for comment. Because the auditee/subrecipient is responsible for procuring the audit, it should already have a copy of the report. However, it may still be helpful to send a letter requesting comments on the audit findings before issuing an Initial Determination.

Initial Determination

The Initial Determination is a preliminary decision on whether to allow or disallow questioned costs and resolve any non-monetary (administrative) findings. It offers the auditee/subrecipient an opportunity for informal resolution, not a formal hearing.

The Initial Determination, which addresses questioned costs and administrative findings, should be sent to the auditee/subrecipient within a reasonable time after the end of the subrecipient's comment period. The Initial Determination should be sent U.S. Certified Mail, return receipt requested.

Disallowed Costs Findings. The guidance below can be used for evaluating the allowability of questioned costs. The information can be used in both the Initial and Final Determinations.

- In most instances, a cost will be disallowed if the basis is a clear and unequivocal violation of law and regulations. Costs can also be disallowed based on a violation of Federal grant terms and conditions that include the regulations and OMB circulars governing administrative standards and cost principles.
- Costs incurred must be supported by required source documentation such as time and attendance records, bills and invoices, and canceled checks.
- Some flexibility is available if the questioned cost is based on a violation of a subrecipient, subgrant, or contract requirement. Subgrants and contracts can be more restrictive in the range of activities and types of cost permitted under that subgrant or contract than Federal or, if applicable, state rules or regulations. Therefore, it is possible that a cost could be unallowable under the subgrant/contract provisions but allowable under state provisions and/or the ETA-funded Federal regulations. The entity resolving the audit may or may not disallow the costs. However, an entity cannot require less than full compliance with the ETA-funded program legislation and its regulations. It is the responsibility of the agency resolving the audit to determine if the contract or grant requirements that are more restrictive than the Federal (or state) requirements should be waived. The decision is entirely discretionary.

Administrative (Non-Monetary) Findings. Administrative non-monetary findings should also be addressed in the same Initial and Final Determinations. The proper resolution of an administrative finding is corrective action of the deficiency. Although not required, entities may wish to prioritize administrative findings to focus immediate attention on those considered serious, especially if the finding could result in cost disallowances, such as an inadequate eligibility determination process.

The organization's audit resolution control log, discussed previously, should document the findings selected for urgent corrective action. In addition, it is strongly recommended that the resolution of administrative findings be coordinated with the agency monitoring the program to ensure that on-site follow-up verifies and documents corrective action. The guidance provided below can be used for the Initial and Final Determinations. For each administrative finding, note

- The deficiency and the corrective action required of the subrecipient. If the administrative finding was corrected during the comment period or as a result of informal resolution, the manner in which the matter was resolved should be indicated. If further corrective action is required, the specific action required should be specified in the Initial and Final Determinations, as appropriate.
- The dates for completion of the corrective action
- The availability of technical assistance, if requested. (The resolution agency should maintain documentation in its file for the subrecipient audit to indicate when technical assistance was requested and provided. Progress reports on the implementation of corrective action should be provided by the subrecipient and maintained in the file.)

- Sanctions and remedial actions that may be taken against the auditee/subrecipient if the deficiency is not corrected. The completeness and specificity of this part of the Initial Determination is important in serious cases when it is likely that the awarding agency will take strong measures, including termination, reorganization, reallocation, or partial funding if the deficiency is not corrected.

Informal Resolution Period

During this period, the auditee/subrecipient has an opportunity to present new evidence, documentation, and an explanation to modify the decision by the awarding agency. The auditee/subrecipient has an opportunity to agree to corrective action before the awarding agency initiates sanctions or remedial actions. Occasionally, the auditee/subrecipient will admit to the non-allowability of a questioned cost and make repayment. In such cases, the amount is disallowed in the Final Determination but is not subject to debt collection.

The terms of repayment may be negotiated and may also be included in the Final Determination.

Final Determination

The Final Determination should be sent to the auditee/subrecipient within a reasonable time (not more than six months) after the awarding agency receives the final audit report. The Final Determination should be sent by U.S. Certified Mail, return receipt requested.

The Final Determination should:

- Reference the Initial Determination
- State the awarding agency's final decision to disallow any costs, listing each disallowed cost specifically and noting the reasons for each disallowance. (Lengthy explanations can be incorporated by reference to item and page number of the audit report; however, a Final Determination that can stand on its own is preferable.)
- Identify the questioned costs in the audit report that have been allowed by the awarding agency and the basis for the allowance of the costs
- Demand repayment of the disallowed costs
- Describe debt collection actions and other sanctions that the awarding agency may impose if repayment is not made
- Inform the auditee/subrecipient of its right to appeal
- Restate the status of each administrative finding.
- Identify areas of disagreement between the parties (29 CFR 96.53(c)(2)).

When a cost is disallowed in the Final Determination, a debt is established. However, if the auditee/subrecipient appeals, no further collection action can be taken, pending the outcome of the appeal.

The agency responsible for resolution is required to maintain an audit resolution file documenting the points listed above and containing copies of all formal correspondence relating to the resolution.

Note: The Final Determination letter should advise the auditee/subrecipient that the determination is based on information that was currently available. If new information becomes available, the Final Determination may be reopened at the awarding agency's option. However, this is not intended to extend the negotiation process indefinitely. Ensuring due process without incurring needless delays is a concern every administrative complaint system must recognize and address.

A *Matrix of Standardized Letters*, listing samples and distribution lists for Final Audit Report transmittal letters, Initial Determination or Preliminary Decision letters, Final Determination or Final Decision letters, and Determination/Decision Transmittal Memos is included at the end of this chapter as Attachment II-12-3.

Post Final Determination Follow-Up on Uncorrected Findings. Corrective action on audit findings should be initiated within the six-month audit resolution period and proceed as quickly as possible. In some cases, corrective action on administrative findings may not be completed within the six-month time frame. To ensure that these findings are fully corrected, proper controls should be implemented that will track resolution during the post-Final Determination period. Follow-up should include requirements that require auditees to report, at least quarterly, the status of uncorrected audit findings and corrective action. Follow-up tracking systems should include contact information that identifies the person (and telephone number) responsible for ensuring correction of the reported deficiencies and variances and should require at least quarterly updates of progress toward achieving correction.

The auditee/subrecipient efforts to correct a deficiency should be monitored on a continuing basis by appropriate awarding agency staff. Depending on the severity of the deficiency and the time of year, it may only be necessary to review the status of the corrective action during routine fiscal monitoring. Uncorrected administrative findings will be reported again during the next single audit period.

If the auditee/subrecipient fails to correct the deficiency in the allotted time, the sanctions and remedies noted in the Final Determination may be exercised. This occurs after all appeal opportunities have been exhausted.

Other Recommended Uses of the Initial and Final Determination Process

All ETA-funded administrative entities are encouraged to develop a process or procedure similar to the Initial and Final Determination processes described above for resolving monetary and non-monetary findings resulting from monitoring, incident reports, compliance reviews, and investigations, in addition to audits.

STAND-IN COSTS AND AUDIT RESOLUTION

The Comptroller General of the United States issued a decision (68 Comp. Gen. 247, dated February 9, 1989) which indicates that the DOL should accept stand-in costs as a substitute for disallowed costs in audit resolution. The application of stand-in costs is considered by ETA

during **the audit resolution stage**. If an auditee agrees that an auditor's questioned cost is unallowable or decides not to contest the finding and wishes to propose the use of stand-in costs as substitutes for otherwise unallowable costs, the proposal shall be included with the audit resolution report or other document by which the auditee provides its comments to the resolution agency. If the auditee is uncertain about the allowability of the auditor's questioned cost before receipt of the Initial Determination, the proposal to use stand-in costs may be presented during the informal resolution period.

Criteria

Stand-in costs are non-Federal costs that may be substituted for disallowed grant costs when certain conditions are met. Stand-in costs must meet the following criteria:

- To be considered, proposed stand-in costs shall have been actually incurred allowable grant costs that have not been charged to the ETA-funded program, included within the scope of the audit, and accounted for in the auditee's financial system required by 29 CFR Part 97 or 95 as appropriate. Cash match (i.e., expenditures of the organization used as match) in excess of the required match may also be considered for use as stand-in costs.
- To be accepted, stand-in costs must come from the same year as the costs that they are proposed to replace, and they must not cause a violation of the administrative or other cost limitations. Each of the separate criteria for consideration of proposed stand-in costs is discussed below:

Criterion: Must be allowable costs that were actually incurred for the benefit of the ETA-funded program and paid by a non-ETA fund source. Thus, for example, the dollar value of in-kind donations cannot be recognized as stand-in costs. Also, inasmuch as costs must be net-of-credits under the governing cost principles, the dollar value of discounts cannot be considered as an allowable grant cost.

Criterion: Must have been included within the scope of the organization's single audit (not necessarily tested but potentially subject to testing). This means that the costs must be recorded and included in the financial statements presented by the agency to the auditor for audit. Failure to include unbilled costs disqualifies the costs for stand-in consideration.

Criterion: Must have been accounted for in the auditee's financial system. This means that the unbilled expense must be recorded and documented in the administrative entity's books of accounts. It cannot be presented as a separate consideration outside the entity's accounting system.

Criterion: Must be adequately documented in the same manner as all other ETA-funded program costs. This means that the unbilled expense must be treated in a manner consistent with cost principles affecting other expenses, including but not limited to the cost allocation methodology, cost classification methodology, and supporting documentation requirements.

Caution: Stand-in costs cannot be created using circumstances or conditions that appear to be legitimate liabilities if no actual costs are incurred by any entity.

Example: The local school department provides free space for an ETA-funded program in a building that has been fully depreciated. The only facility-related costs the school department actually pays are for general maintenance. A liability created by the school department related to rental costs that were never paid is not a legitimate stand-in cost. The only legitimate stand-in cost available in this example, assuming that all recording and reporting requirements have been satisfied, is an allocable share of the general maintenance cost based on square footage occupied, or another allocation method that would be more equitable.

Certain costs, including in-kind contributions, are not considered unpaid ETA program liabilities, but rather as in-kind match; therefore, they cannot be used as stand-in costs because they cannot be charged to the Federal grant. Examples of other costs that are not stand-in costs include:

- Uncompensated overtime
- Unbilled premises costs associated with fully depreciated publicly owned buildings
- Allocated costs derived from an improper allocation methodology
- Discounts, refunds, rebates
- Any state share of the cost of state or community college tuition.

Two other caveats should be mentioned. First, as suggested above, allowable stand-in costs may be used to trade or substitute for disallowed costs under certain conditions. The source of stand-in, however, is intended to be limited to the same entity that incurred the disallowed costs. Thus, aggregation or pooling of stand-in within a state formula grant as a kind of insurance policy available to reduce or eliminate bad costs wherever they might be identified is not an arrangement that will be recognized by the DOL. Second, if the cause of the disallowed costs was fraud, then the DOL will not ordinarily consider proposals of stand-in to substitute for such costs.

APPEALS

The appeals process for DOL programs is described at 29 CFR Part 96, Subpart F. This subpart applies only to those recipients, subrecipients, vendors, and contractors against whom the DOL has directly levied a sanction. It includes provisions for appeals by both contractors and grantees. The provision at 29 CFR 96.62 indicates that contractors (e.g., Job Corps center operator contractors) may appeal a DOL Contracting Officer's Final Determination to the DOL Board of Contract Appeals. The requirements for appeals by grantees are found in 29 CFR 96.63. Of the two options provided, ETA has elected to use the process for appeal to the DOL Office of Administrative Law Judges (ALJ). The provision for this option, 29 CFR 96.63(b), indicates that affected parties may appeal the decision (and the sanctions imposed) within 21 days of receipt of the Grant Officer's Final Determination by requesting a hearing before the ALJ. The requirements for appeal indicate that the request for hearing must

be accompanied by a copy of the Final Determination and must include a statement of the issues that identifies the specific portions of the Final Determination being appealed and the basis for the appeal.

The ALJ is to issue a written decision no later than 90 days after the closing of the record. Should any party be dissatisfied with the decision, it may file an exception to the decision to the Secretary of Labor. The appeal must be filed within 21 days of receipt of the ALJ decision and specify the procedure or finding of fact, law, or policy being appealed. Any exception not specifically appealed is considered to be waived. The decision of the ALJ will become the final agency action unless the Secretary agrees, within 30 days of the filing, to review the case. The secretary has delegated this authority to the Administrative Review Board (ARB). The Secretary (or the ARB) must decide the case within 180 days. However, if no decision is issued, the ruling of the ALJ is considered to be the final agency action.

In accordance with the provisions at 29 CFR 96.61(b), other subrecipients and subcontractors have only the rights of appeal as are contained in their subaward agreements with their respective awarding agencies. There is no appeal right to the DOL.

WIA Title I

Additional appeals regulations for WIA Title I grantees are found at 20 CFR Part 667, Subpart H. The regulations state that appeals by entities against which the ETA Grant Officer has directly imposed a sanction or imposed a corrective action are to be submitted within 21 days of receipt of the Final Determination. Failure to request a hearing within 21 days constitutes waiver of a right to a hearing. Under these provisions, the ALJ is to issue a written decision no later than 90 days after the closing of the record. Should the appealing party be dissatisfied with the decision, it may appeal the decision to the Administrative Review Board (ARB). The appeal must be filed within 20 days of the ALJ decision and specify the procedure, fact, law, or policy being appealed. Any exception not specifically appealed is considered to be waived. The decision of the ALJ will become the final agency action unless the ARB notifies each party within 30 days that the appeal has been accepted. The ARB is to issue a decision within 180 days. If no decision is issued within that time, the ruling of the ALJ is the final agency action.

Subpart H also provides that parties to a complaint (i.e., ETA and the entity against which the Final Determination was issued) may choose to waive their rights to an ALJ hearing and may opt to transfer the settlement of their dispute to an individual acceptable to all parties. Under this alternative disputes resolution process, the individual selected by the parties will conduct an informal review of the facts and render a written decision within 60 days. A decision issued under this process will be treated as a final ALJ decision.

ADDITIONAL WIA CONSIDERATIONS

In addition to the audit and audit resolution requirements contained in 29 CFR Parts 96 and 99, the WIA regulations contain a number of special conditions related to audit and audit resolution that are applicable only to WIA Title I programs.

- For formula funded grantees (i.e., states), the Governor is responsible for resolving the audit findings related to LWIAs and other subrecipients. The state must utilize the same audit, audit resolution, debt collection, and appeals procedures for WIA as are used for other Federal grant programs. [20 CFR 667.500(a)]
- The ETA uses the DOL audit resolution process, found in 29 CFR Part 96, and the Grant Officer resolution process found at 20 CFR 667.510 to resolve the audit findings of state formula grantees and other direct recipients of WIA funds, including the INA program and NFJP. In addition, the Grant Officer has the right to resolve subrecipient audit findings if dissatisfied with the state's resolution action.
- The Initial Determination must provide for an informal resolution period of at least 60 days and, if the audit is resolved informally, the Grant Officer must issue a Final Determination that notifies the parties of the resolution. The Grant Officer may then close the file. [20 CFR 667.510(c)]
- The Final Determination is ordinarily issued within 180 days from the date the audit is received by ETA from the DOL OIG. For audits of subrecipients conducted by the OIG, the Final Determination will ordinarily be issued within 360 days.
- The Grant Officer has the right to issue an Initial and/or Final Determination directly to a subrecipient consistent with the requirements of Section 184(d)(3) of the WIA related to waivers of liability.
- Under WIA Section 184(d)(3), the Grant Officer may waive the liability for a debt under the circumstances listed in Section 184(d)(2) and 20 CFR 667.720(c)(1-5). This section specifies that a waiver request will be considered only if:
 - The misexpenditures occurred at the subrecipient level
 - The misexpenditures were not the result of gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or did not constitute fraud
 - If the misexpenditures were due to fraud, they must have been perpetrated against the grantee or the subgrantee, and the grantee/subgrantee must have forcefully pursued investigation, prosecution, and debt collection against the perpetrator; and after aggressive debt collection, it is documented that further attempts at debt collection would be inappropriate or futile
 - The debt associated with the misexpenditures must have been established through the established audit resolution process and the grantee's appeals process exhausted
 - The Grant Officer determines that further collection actions would be inappropriate or futile.

The grantee formally requests the waiver and provides documentation to support its claim of compliance with these requirements.

- It is ETA practice to require that waiver requests be made during the informal resolution period when related to an ETA audit resolution action. If the waiver request relates to a debt established during the grantee's resolution process, then a resolution report must accompany the request. Waivers of liability are also addressed in Chapter II-13, *Disposition of Disallowed Costs*.
- A direct grantee may also request approval from the Grant Officer for contemplated debt collection actions it plans to either begin or forego. The request must include a description and an assessment of all actions taken by a subrecipient to collect the misspent funds. The Grant Officer may then determine that the grantee may forego collection. The criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion of waiver of liability above. This provision is addressed more fully in Chapter II-13, *Disposition of Disallowed Costs*.

**Audit Review Checklist for
Single Audits (Financial and Compliance)
Under OMB Circular A-133**

<u>Audit Report</u>	<u>Yes</u>	<u>No</u>
1. Does the audit report include the following:		
A. The auditee's financial statements?	___	___
B. Report (opinion) on the financial statements?	___	___
C. Schedule of Federal awards by Catalog of Federal Domestic Assistance (CFDA) number?	___	___
D. Report (opinion) on the schedule of Federal awards?	___	___
E. Report on internal controls related to the financial statements and major programs?	___	___
F. Report on compliance with laws, regulations, etc.?	___	___
G. Schedule of findings and questioned costs? (If none, schedule should say none.)	___	___
H. Schedule of prior audit findings?	___	___
I. The auditee's corrective action plan?	___	___
2. Do you understand and agree with the type of financial opinion given (qualified, unqualified, adverse, disclaimer)?	___	___
3. If there are any scope limitations in the opinion, are they correct?	___	___
4. Are the opinions dated as of the last day of fieldwork?	___	___
5. Do the opinions refer to the government audit standards (Yellow Book) and OMB Circular A-133?	___	___
6. If the audit refers to "another comprehensive basis of accounting," is this correct?	___	___
7. Are all agency funds (grants, corporate cash, program income, etc.) included in the financial statements?	___	___
8. If grants overlap the fiscal year, is there information by grant or supplemental schedule (if required by the audit contract)?	___	___

Audit Report

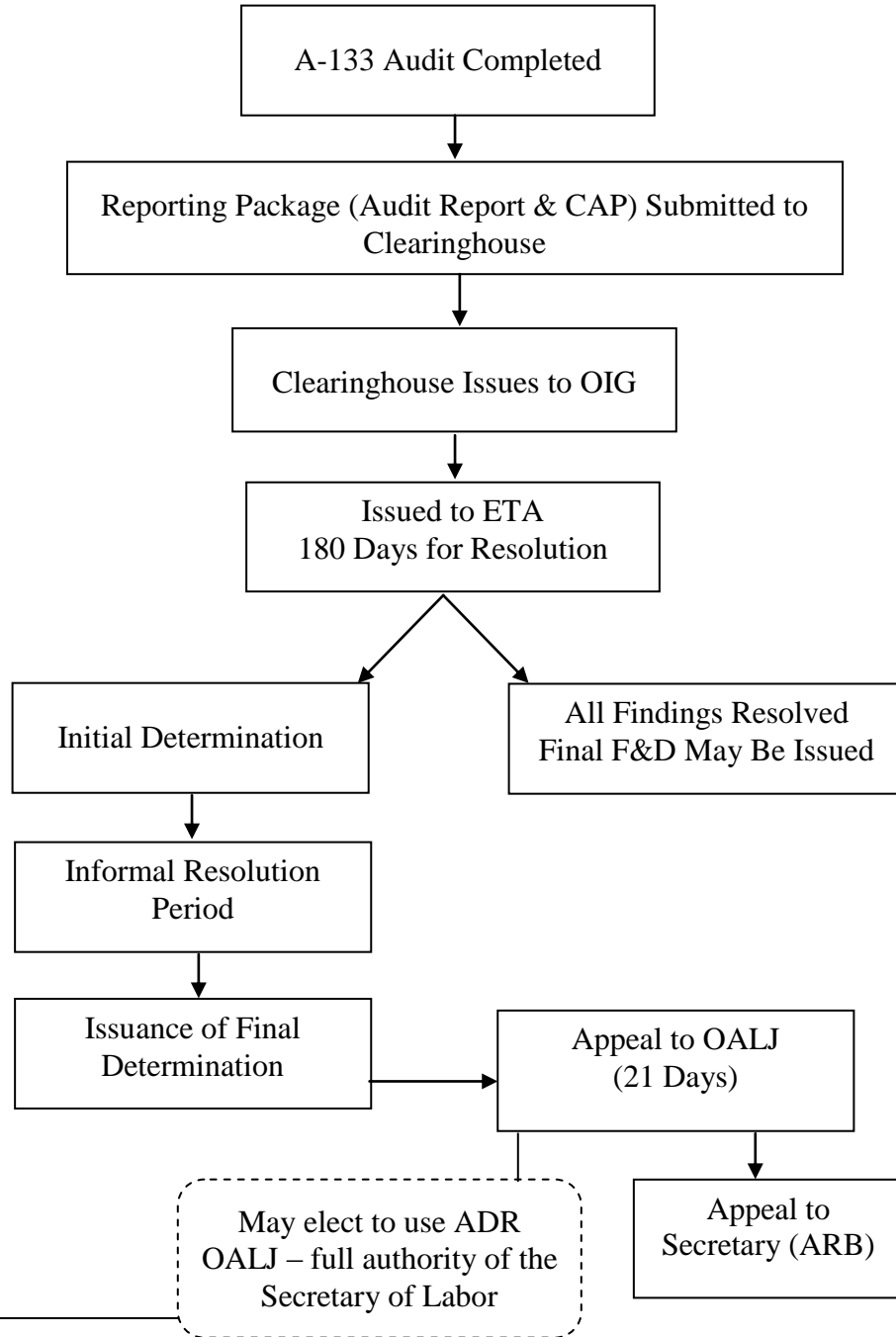
Yes No

- | | | | |
|-----|--|-----|-----|
| 9. | If there are significant deficits in any fund balance, are they clearly explained? | ___ | ___ |
| 10. | Has the auditor provided the agency with copies of any recommended adjustments to the books? | ___ | ___ |
| 11. | Do the financial statements agree with the agency's books, after the posting of the recommended adjustments? | ___ | ___ |
| 12. | If there are supplementary schedules, is there an opinion covering the supplementary information? | ___ | ___ |
| 13. | Are the accounting policies clearly explained in the notes to the financial statements? | ___ | ___ |
| 14. | Are there notes explaining any financial items that could raise questions to an outside reader? | ___ | ___ |
| 15. | Does the audit discuss the status of prior year audit finding(s)? | ___ | ___ |
| 16. | Do the findings clearly indicate the criteria for <u>each</u> finding? | ___ | ___ |
| 17. | Are the agency's comments included with each finding? | ___ | ___ |
| 18. | Are the findings clearly written in such a manner that they can be responded to? | ___ | ___ |
| 19. | Does the audit clearly indicate how any questioned costs have been calculated? | ___ | ___ |

Other

- | | | | |
|-----|---|-----|-----|
| 20. | Was there an exit conference? | ___ | ___ |
| 21. | Were all items in the audit discussed at the exit conference? | ___ | ___ |
| 22. | Was the audit completed and submitted on time? | ___ | ___ |
| 23. | Do the billings for the audit agree with the amount in the audit contract? | ___ | ___ |
| 24. | If there was an increase to the audit fee, was it approved before the work was performed? | ___ | ___ |
| 25. | Was the audit staff competent and knowledgeable about government audit standards, grant programs, cost principles, and administrative requirements? | ___ | ___ |

ETA Audit Resolution Flow Chart¹



¹ **NOTE FOR ARRA** - OMB Memorandum M-10-14 issued on March 22, 2010, included the following requirement for grants funded with Recovery Act (ARRA) funds:

For all single audits with fiscal year ended September 30, 2009 and later, Federal awarding agencies shall review these reports and take action on them. Actions at a minimum should include the following: • Expedite review and resolution of audit findings to ensure all findings are resolved within 6 months after the date the Federal Audit Clearinghouse (FAC) shows filing status as complete. Federal agencies are further instructed to grant no extensions of audit deadlines.

Matrix of Standardized Letters

The National Office uses a standard set of transmittal letters related to Audits. Below is a list of the Audit-related letters for grantees as well as the transmittal memo distribution list.

Audit-Related Letter
LETTER TRANSMITTING AUDIT REPORT
Final Audit Report (Workforce Investment Act (WIA Only))
Final Audit Report (WIA and other ETA Programs)
Final Audit Report (All ETA programs except WIA)
Regional Notice to Resolve
INITIAL DETERMINATIONS or PRELIMINARY DECISIONS
Tentative Disallowed Costs & Admin. Findings
No Disallowed Costs & AF Uncorrected
Tentative Disallowed Costs and AF Corrected
FINAL DETERMINATIONS or FINAL DECISIONS
Audit Finding (AF) Corrected – Questioned Cost (QC) Allowed
AF Corrected – QC Disallowed/Not Collectible
AF Corrected – QC Disallowed/Debt Collection
AF Uncorrected – QC Allowed
AF Uncorrected – QC Disallowed/Not Collectible
AF Uncorrected – QC Disallowed/Debt Collection
AF Only – Corrected
AF Only – Uncorrected
QC Only – Allowed
QC Only – Disallowed/Not Collectible
QC Only – Disallowed/Debt Collection
WIA Concurrence Letter (WIA ONLY)
DETERMINATIONS/DECISION TRANSMITTAL MEMOS
Initial Determination/Final Determination Transmittal Memo
Final Determination/Final Determination Transmittal Memo

Transmittal Memo Distribution:

Office of the Inspector General	*
Regional Administrator	*
Office of Workforce Investment	*
Office of Unemployment Insurance	*
Office of National Response	*
Office of Trade Adjustment Assistance	*
Office of Job Corps	*
Division of Federal Assistance	*
Office of Contracts	*
OFAS/Debt Collection Unit (Final Determinations only as appropriate)	*

Chapter II-13

Disposition of Disallowed Costs

INTRODUCTION

This chapter provides guidance and procedural suggestions on ETA debt collection requirements, the use of offset provisions, and waivers of liability under the WIA. It contains the following sections:

- Federal Options
- Non-Federal Options
- Additional WIA Requirements

When a resolution process (such as the Initial and Final Determination process) results in a determination by an awarding agency that ETA funds have been misspent, a debt is established. The awarding agency is expected to collect that debt.

Within the ETA, responsibility for debt collection resides in the Office of the Comptroller. The ETA defers collection action when a recipient requests an ALJ hearing on the Grant Officer's Final Determination. Federal debts are most often repaid as a lump sum or as installments (generally over a period of three years or less) in accordance with the Federal Claims Collection Standards, 31 CFR Subtitle B, Chapter IX, Parts 900-904.

FEDERAL OPTIONS

ETA holds its direct recipient liable for all misexpenditures of funds awarded to the recipient. This requirement is formalized in grant award documents or through regulation. The WIA regulations at 20 CFR 667.705 apply this requirement to all WIA Title I grant recipients. For formula allocations to local areas, the regulations hold the political jurisdictions of the local elected official(s) responsible. This is true whether or not a Federal debt has been formally established using the Initial and Final Determination process. However, once a Federal debt is established, either by a Grant Officer's Final Determination or by an ALJ decision and order, the collection process becomes more formalized.

ETA's preferred corrective action for disallowed costs from ETA grant funds is non-Federal cash repayment. The ETA uses a process of three demand letters at about 30-day intervals to demand repayment. If no appeal has been filed, debts are considered delinquent, and subject to accrued interest charges, 30 days after the date of the Final Determination. However, the ETA is willing to negotiate short-term installment agreements instead of full lump-sum

repayments when the circumstances warrant. If the Final Determination has been appealed, then debt collection efforts are suspended and no interest will accrue, until the appeal has been resolved and a final decision rendered.

Once ETA has issued the three demand letters and has not received payment for the debt, the grantee is subject to the use of offset as a debt collection method. Administrative offset is authorized at 31 U.S.C. 3716 as a means of collecting delinquent final debts that have been established by Federal agencies. Under the U.S. Treasury offset process, Federal agencies may request from the Treasury Department that any current or future funds that become due for payment to a grantee be withheld in the amount of the debt as a means of satisfying the debt. Grantees should be aware that offset against the ETA grant may be used to satisfy debts owed to non-DOL Federal agencies as well as debts owed the DOL, and vice versa. This Federal offset process is distinctly different from the offset provisions under WIA Title I that are addressed later in this chapter.

NON-FEDERAL OPTIONS

The DOL regulations at 29 CFR 96.54 indicate that the state and any other direct recipients are ultimately responsible for ensuring that all grant funds received under ETA-funded programs are appropriately expended. In addition, 29 CFR 97.52 and 95.73 provide the requirements for the collection of any amount due the awarding agency. Thus, states and other direct recipients must hold subrecipients responsible for ETA funds received through a grant and may ultimately hold units of local government and other subrecipients liable for disallowed costs.

Recipient debt collection standards and all policies and procedures flowing from these standards should describe the options for satisfying debts resulting from ETA-funded subgrant misexpenditures. States may already have sufficient debt collection procedures for ETA disallowed costs, but they should review their debt collection procedures to determine their adequacy. Generally, debt collection procedures involve payment demand letters.

Non-Federal cash repayment, either as a lump sum or as installments, is a debt collection option available at all levels within the ETA system. If the debt is established after the period for fund availability for the disallowed funds has elapsed, the repayment must be made to ETA.

With the exception discussed below for WIA Title I formula grantees, the U.S. Treasury offset process is not available to grantees for the collection of delinquent debts. Grantees and subgrantees should ensure that adequate debt collection measures have been included in their subgrant documents, and they are cautioned to follow state and local law in collecting the debts.

ADDITIONAL WIA REQUIREMENTS

In addition to the debt collection requirements addressed above, the WIA and its implementing regulations provide additional requirements related to the use of offset and waivers of liability for misexpenditures.

Offset

Use of offset as a method for debt collection under WIA Title I programs is addressed in the Act at Section 184(c) and in the regulations at 20 CFR 667.740. Under these provisions, also known as repayment from deductions by state, direct recipients wishing to utilize offset must formally request such an offset from the Grant Officer. The ETA will apply offset against the administrative funds. This option is available only if the debt is not due to gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or a pattern of misexpenditure. [20 CFR 667.740(a)(2)]

Example: A debt is established through the audit process against a WIA Title I Dislocated Worker grant for a rapid response activity conducted by the state grant recipient. The Governor requests that offset be used to satisfy the debt. The Grant Officer agrees, and the following year's allotment for Dislocated Workers is reduced by the amount of the debt. The Grant Officer further stipulates that the offset is to be applied to reduce the amount available for administrative expenditures by the amount of the debt, with the expectation that program services will continue to be provided at the level originally required.

The Act and the regulations also provide for offset to be applied at the sub-state level for the WIA Title I formula grants. If the Grant Officer has held a state recipient responsible for misexpenditures incurred by an LWIA, then the state may utilize the offset provisions to collect the debt by deducting the amount of the debt from the subsequent year's allocation to the LWIA. The offset must be applied against the LWIA administrative funds. As with the offset for states, the misexpenditures cannot be due to gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or a pattern of misexpenditure by the subgrantee. [20 CFR 667.740(b)] However, the debt is not considered resolved until ETA reduces the state's allotment by a like amount.

Example: The ETA has disallowed costs against an LWIA and requires the state grantee to repay the costs associated with an overpayment to a vendor of \$10,000. Following state procedures, the LWIA administrative entity requests offset, and the state agrees and requests an offset of funds from the ETA. The ETA then reduces the subsequent year's allotment to the state and the state would then reduce the administrative funds allocation to the LWIA by \$10,000.

Waivers of Liability

The Act, at Section 184(d)(3) provides that the ETA may waive the liability for a debt. To be eligible for a waiver, states must have complied with the factors listed in WIA Section 184(d)(2) and 29 CFR 667.720(c)(1-5). Waiver requests will be considered only if:

- The grantee formally requests the waiver and provides documentation to support its claim of compliance with these requirements
- The misexpenditures occurred at the subrecipient level

- The misexpenditures were not the result of gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or fraud
- If the misexpenditures were due to fraud, it must have been perpetrated against the grantee or the subgrantee, and the grantee/subgrantee must have forcefully pursued investigation prosecution and debt collection against the perpetrator, and further attempts at debt collection would be inappropriate or futile.
- The debt associated with the misexpenditures must have been established through the established audit resolution process and the grantees appeals process exhausted.

The Grant Officer will release the grantee from liability only if it is determined that further debt collection would be either inappropriate or prove futile. If the waiver request is made during the ETA audit resolution period, it must be made during informal resolution. If the waiver request relates to a debt established during the grantee's resolution process, then a copy of the audit resolution document(s) or a resolution report must accompany the request.

Example: A state establishes a debt against an LWIA for tuition payments made through an ITA to an ineligible participant. The LWIA has a system for eligibility determination, followed its own procedures for establishing ITAs and payments, cutoff payments upon discovering the ineligible status, and requested repayment from the participant. The LWIA has determined that debt collection from the participant would prove futile, as the participant has now left the area. It requests a waiver of liability from the grantee and provides adequate documentation to support the request. The waiver request is then forwarded to the Grant Officer, along with a resolution report by the grantee.

Advance Approval for Corrective Action

A direct grantee may also request approval from the Grant Officer for contemplated debt collection actions it plans either to begin or to forego. The request must include a description of the establishment of the debt and all actions taken by a subrecipient to collect the funds. The Grant Officer may then determine that the grantee may forego collection. The criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion on waivers. Again, the Grant Officer will approve the request only if the grantee demonstrates that further debt collection would be either inappropriate or prove futile.

Example: A debt is established by the state against an LWIA for an overpayment to a vendor for training materials. The vendor has since gone out of business, and the LWIA has documented all collection actions taken to date. The LWIA, in its request to forego debt collection to the state, has demonstrated that all appropriate internal controls existed to prevent overpayment, that the amount of the overpayment was small, that the vendor no longer exists as a business entity, and any further attempt at collection would prove futile. The state will then request the Grant Officer to approve its proposed waiver of collection.

Chapter II-14

Records Retention

INTRODUCTION

This chapter provides guidance for grantees and subgrantees on proper maintenance of financial and programmatic records. These records must be accessible to authorized Federal and awarding agency staff and verifiable for monitoring, reporting, audit, and evaluation. This chapter contains the following sections:

- Applicability of Requirements
- Length of Retention Period
- Other Rules
- Examples.

APPLICABILITY OF REQUIREMENTS

The requirements applicable to states, local governmental entities, and Indian tribes are found in 29 CFR 97.42. These requirements apply equally to grantees and subgrantees and include financial and program records, supporting documents, statistical records, and other records that are either required to be held by regulation or grant agreement or could reasonably be considered as pertinent to regulation or the grant agreement.

The records retention and access requirements applicable to institutions of higher education, hospitals, other nonprofits, and commercial organizations are found in 29 CFR 95.53. As with state grantees, these requirements apply equally to both recipients/grantees and subrecipients/subgrantees. The requirements apply to “financial records, supporting documents, statistical records, and all other records pertinent to an award.”

LENGTH OF RETENTION PERIOD

Both 29 CFR 97.42 and 29 CFR 95.53 require that records must be retained for three years following the date on which the expenditure report containing the final expenditures charged to a PY’s allotment or a grant is submitted to the ETA. For formula grants, for example, if any of the PY 2009 allotment was unexpended by June 30, 2010, and carried over into PY 2010, and the expenditure report (U.S.DOL ETA Financial Report (ETA-9130)) containing the final expenditures to the PY 2009 allotment is submitted on August 15, 2011, then all PY 2009 records must be retained until August 15, 2014 (three years following August 15, 2011). These

dates assume no audit/litigation problems that would extend the required retention period. For non-formula grants, the grantee is governed by the grant agreement and the applicable requirements of 29 CFR Part 97 or Part 95. For example, if the grant expired on September 30, 2009, and the grantee submitted the final expenditure report on December 29, 2009, then the records related to the grant must be maintained until December 29, 2012 (three years following December 29, 2009). These dates assume no audit/litigation problems that would extend the required retention period. If any litigation, claim, or audit is started before the expiration of the three-year period, the records must be retained until all findings have been resolved and final action taken.

Subrecipient Level

The rules apply equally to recipients and subrecipients under both administrative regulations. This will have a major effect on state or other direct recipients, requiring them to be cognizant of the time limitations on an individual subrecipient basis. There could be a wide variance in record retention requirements for subgrantees. Without a mechanism to track record retention requirements, the grantee runs a risk of records destroyed by a subgrantee that may be pertinent in the event of a later complaint or audit resolution process, even though records are to be maintained until audits are resolved. One method of resolving this would be for the grantee to take physical custody of any records it feels may fall within this category. While the probability of issues arising may be rare, recipients and subrecipients should carefully review retention time frames.

Example: A subgrantee had a contract with an ending date of June 30, 2009. In accordance with the grantee's closeout policy, a final expenditure report was submitted by the subgrantee on July 25, 2009, triggering the three-year retention period. There were no subsequent audit issues. However, the grantee does not submit its final expenditure report for the funding period until August 15, 2010. Should there be unresolved complaint issues at the grantee level, and records of the subgrantee could aid the grantee in litigation, the grantee would need to take physical custody of the subgrantee records on July 25, 2012, to ensure the records are available. The records would be retained through August 15, 2013, or until the litigation is resolved, whichever is later.

Closeout and Audit Resolution

The record retention period does not start over if final expenditure reports are revised for the following reason:

Revisions Resulting from Closeout. Federal Grant Officers must close out each annual grant agreement in a timely period after the award's funding period (three years for formula grants) has expired. If a final expenditure report is revised, the record retention clock is not reset to zero on the date of the submittal of the revision. Such revisions are considered expenditure adjustments and do not alter the initial time period for record retention. The records must be retained for three years from the original submission date of the final expenditure report.

OTHER RULES

Retention Rules

The following retention rules apply to specific records:

- **Real Property and Equipment Records** must be retained for three years after final disposition, replacement or transfer of the property. [29 CFR 97.42(c)(2)] [29 CFR 95.53(b)(2)]
- **WIA Title I Complaint Records** and actions related to resolving complaints shall be maintained for not less than three years from the date of resolution of the complaint. [29 CFR 37.39(b)] In addition, WIA Title I grantees and subgrantees must follow the requirements of 29 CFR Part 37, as these regulations apply to the entire organization receiving WIA funds. These records should be maintained as a whole record system.
- **Litigation/Audit Records** are to be retained beyond the prescribed period if any litigation or audit has begun, or if a claim is instituted involving the grant or agreement covered by the records. In these instances, the records must be retained until resolution of the litigation, audit, or claim and final action is taken; or until the end of the regular three-year record retention period, whichever is later. [29 CFR 97.42(b)(2)] [29 CFR 95.53(b)(1)] Failure to obtain an audit extends the record retention requirement indefinitely. A delay in obtaining an audit or in resolving audit findings extends the record retention period until all audit requirements have been satisfied and all findings have been resolved to the satisfaction of the awarding agency.
- **Indirect Cost Records, such as computations or proposals, cost allocation plans, and supporting documentation and records**, must be retained for three years from the date the indirect cost rate package is submitted for negotiation [29 CFR 97.42 (c)(4)(i)]. If not submitted for negotiation, the records must be maintained for three years from the end of the Fiscal/Program Year that contains the final grant costs [29 CFR 97.42 (c)(4)(ii)].

Custody of Records

To avoid duplicate record keeping, grant recipients may make special arrangements with subrecipients, vendors, and others to retain records that are continuously needed for joint use. The grant recipient will request transfer of records to its custody when it determines that the records possess long-term value. When the records are transferred to or maintained by the grant recipient, the retention requirement does not apply to the entity that relinquished its records.

Termination of Relationship

When the relationship with a subrecipient is terminated, the subrecipient's responsibility for maintenance and retention of records does not end. However, the grant recipient may want to take custody of the original records to assure that they are available if needed in instances where the subrecipient is unable (e.g., going out of business) to physically retain them. In situations

where original records have been transferred, the recipient should conduct a review to determine that all required records have been received.

Record Storage

Records shall be retained and stored in a manner that will preserve their integrity and admissibility as evidence in any audit/litigation or other proceeding. The burden of production and authentication of the records shall be on the custodian of the records.

Microfilmed or photocopied records can be substituted for original records because they are generally accepted (unless questions as to authenticity are raised) as admissible for evidentiary purposes. [29 CFR 18.1002-1003]

If data are stored in a computer or similar device, any printout or other output readable by sight, shown to reflect the data accurately, is an original. [29 CFR 18.1001(a)(3)] To prove the content of a writing or recording, the original writing or recording is required. [29 CFR 18.1002]

The ETA does not take a position on the use of electronic media for the storage of records, but this should not be construed to mean that they cannot be used. Due to rapid advances in technology, the better approach is for the recipient or subrecipient to specify the record storage criteria that must be met for whatever medium, including electronic media or other storage media, is used. When choosing media for record retention, the custodian must ensure security safeguards and protections sufficient for the records to be accepted by a court as evidence. Electronic records are often stored on erasable, reusable and relatively inexpensive media, which are easy to revise and update, and are relatively fragile. For these reasons, inventorying and scheduling electronic records should be determined as early as possible in the life cycle of records. In scheduling electronic records, the recipient or subrecipient should consider its ability to meet the obligation to maintain retrievability and usability of the record for the entire span of the required retention period.

As in any case in which a record is maintained, the burden of producing and authenticating it is on the custodian of the record, and failure to authenticate the record will deny the custodian the right to use it for any evidentiary purpose. Thus, if a grantee maintains its participant eligibility records on computer files and is unable to show that the records were secure or were tamperproof, the records cannot be used to prove that participants were eligible for services they receive. 29 CFR 18.902 contains additional requirements related to the admissibility of records in evidence.

Access to Records

The DOL, the Comptroller General of the United States, the grant recipient, or any of their authorized representatives have the timely and unrestricted right of access to pertinent books, documents, papers, or other records (including electronic writings and records) of grant recipients, subrecipients, vendors, and others to make audits, examinations, excerpts, and transcripts. The rights of access are not limited to the required retention period but last as long

as the records are retained. For WIA Title I grant recipients, the Director – Office of Civil Rights has the same rights of access described above per the requirements of 29 CFR Part 37.

Recipients/subrecipients have the right and responsibility to define conditions (i.e., time and place) for providing access to reports and records permitting the tracing of funds, with the exceptions specified in the Act at Section 185(A)(4).

The Freedom of Information Act and Privacy Act (5 U.S.C. 552 and 552a) generally do not apply to ETA-funded records in the possession of recipients and subrecipients. The provisions of these Acts apply to recipients'/subrecipients' records only if they have been transferred to the Secretary of Labor. There may be limited occasions in which the Privacy Act could apply to records under the provisions of 5 U.S.C. 552a(m)(1).

Fees for information requests may be charged only to recover the costs of processing such as copying costs.

Disaster Recovery

Occasionally, records are destroyed by fires, vandalism, or natural disasters such as floods, storms, and earthquakes. The recipient should ensure that each entity with record retention responsibility has a satisfactory plan of record recovery if critical records are lost. An example is off-site storage of computerized/microfilmed records.

Additional Considerations

In implementing record retention policies, recipients and subrecipients must consider state and local policies and requirements. However, these local requirements cannot be less restrictive than the Federal requirements. All entities should also consider state statutes of limitations and the importance of records in the event of unforeseen litigation.

EXAMPLES

Example: Based on the record retention requirements, the outside date for the state-level retention of PY 2009 WIA Title I records is September 30, 2015. This example assumes no litigation/financial report revision issues:

Program Year 2009 ends	6/30/10
End of second program year	6/30/11
End of third program year	6/30/12
Final financial report submitted 90 days after end of third year	9/30/12
End of three-year retention period	9/30/15

Example: Funds allotted for PY 2007 are fully exhausted on March 30, 2010. A final expenditure report for PY 2007 funds is submitted to the ETA on June 30, 2010. For purposes of record retention, the key date is when the final financial

report was submitted to ETA, i.e., June 30, 2010. The three-year record retention clock begins on July 1, 2010, and runs out on June 30, 2013, assuming that no audit or litigation issues have arisen.

The key point of this example is that, if funds for a particular funding period are exhausted in advance of the allowed three-year period of availability, and a final expenditure report has been submitted for that PY, this will trigger the record retention clock. In this example, if no litigation has been initiated or no claim is instituted, and the required audit has been obtained and there are no unresolved audit findings, then the records may be destroyed after June 30, 2013.

Chapter II-15

Agreement Closeouts

INTRODUCTION

Each recipient is responsible for developing and maintaining a system to comply with the closeout requirements specified at 29 CFR 97.50 and 29 CFR 95.71. The closeout requirements contained in the DOL regulations apply only to direct ETA grant recipients. Subrecipients are indirectly affected, because recipients must establish a process to ensure their own compliance with ETA's closeout requirements. This chapter clarifies the distinction between recipient and subrecipient closeout requirements, provides some suggestions for development of subrecipient closeout procedures, and describes the formats currently in use by ETA for closeouts. It contains the following sections:

- The Federal/Recipient Closeout Process
- The Grantee's Closeout Procedures
- Designing an Effective Closeout Process
- Current DOL Closeout Packages
- Summary

What the Regulations Require

The requirements for closeout of ETA-funded grants are found at 29 CFR 97.50 and 95.71. They are substantially the same for governmental and non-governmental grantees and require the following:

- All obligations must be liquidated and final expenditure reports submitted within 90 days of the grant expiration date, unless the time frame is extended by the DOL.
- The DOL must make prompt payment of any additional funds due the grantee.
- The grantee must promptly refund any funds not fully liquidated within the 90-day period.
- Non-governmental grantees must account for both real and personal property acquired with Federal funds or received from the Federal government. [29 CFR 95.71]
- Governmental grantees must provide a list of Federally owned property. [29 CFR 97.50]
- The DOL reserves the right for further grant adjustments based on audit findings.

THE FEDERAL/RECIPIENT CLOSEOUT PROCESS

The requirements at 29 CFR 97.50 and 95.71 apply only to grants between DOL and recipients. They do not apply to the recipients' subgrants with subrecipients or subrecipients' agreements with other organizations. Recipients and subrecipients are responsible for developing the closeout procedures that they will use to close out their subgrants and agreements and adequately account for the financial activities related to the ETA-funded grants. In developing closeout procedures, the grantee must comply with the terms and conditions of the grant award as well as with the regulations.

The requirement that states/recipients submit final financial reports within 90 days after the end of the three-year funding period *does not apply to subrecipients*. States/recipients must establish closeout procedures for their subrecipients with due dates set far enough in advance of their own Federally required deadline that they will be able to meet it.

The requirements for closeout flow down from the recipient to the subrecipient. Any delay in the timely and accurate submission of Federally required closeout documents may impact the grantee's ability to receive grants from the ETA in the future. Therefore, grantees are cautioned to carefully review all closeout instructions and letters received from the ETA.

The ETA currently utilizes an online system, the Grant Closeout System (GCS) that automates the grant closeout process. It provides two separate closeout reporting packages, one for governmental grantees and one for non-governmental grantees. Access to the system and instructions for its use can be found on the ETA Web site under Grants and Contracts. The closeout documents are discussed further in this chapter.

In order to successfully complete the Federal closeout process, recipients should adhere to the following:

- Grantee financial staff must be familiar with the terms and conditions and financial reporting requirements of the grant.
- In order to finalize the closeout process, the grant agreement must be updated through a modification, should there have been any changes in address, telephone numbers, signatory officials, etc.
- If indirect costs have been claimed, the Indirect Cost Negotiation Agreement or Cost Allocation Plan must be provided. If the rate was provisional, the grantee is responsible for requesting a final rate from the appropriate cognizant agency. The grantee must submit a proposal to its cognizant agency requesting final rates within six months after the end of the fiscal year. The closeout will be subject to revision by the ETA if the final rate is lower than the reported provisional rate. Grantees are urged to obtain the final indirect cost rate prior to closeout. If the final rate is higher than the provisional rate, and the rate is obtained subsequent to closeout, there may not be sufficient funds remaining in the grant for payment. Conversely, if the final rate is lower than the provisional rate, the grantee must refund any indirect costs claimed in excess of the actual approved rate.

- All drawdowns must be made before the closeout documents are submitted. If refunds are due the DOL upon closeout, these are to be made electronically through the Department of Health and Human Services (DHHS)/Payment Management System (PMS) in accordance with the grant drawdown procedures. Rebates, refunds, and credits received after the PMS is no longer available should be refunded by check or warrant.

THE GRANTEE'S CLOSEOUT PROCEDURES

The objectives of a successful closeout process, whether of a recipient or subrecipient, should be:

- To ensure that recipients/subrecipients can meet the Federal closeout requirements by the required due date
- To ensure that organizations receiving funds know ahead of time what actions are required for closeout and what conditions must exist at closeout
- To ensure that each organization receiving funds can fulfill its closeout responsibilities to the organization that funded it
- To ensure that organizations receiving funds understand that certain rights of awarding agencies continue beyond closeout
- To identify problems/issues that frequently arise subsequent to closeout, and to prescribe a way to handle them that minimizes the effort required to resolve them.

DESIGNING AN EFFECTIVE CLOSEOUT PROCESS

Closeout documentation requirements should be kept to the minimum necessary to achieve effective closeouts and to prevent as many post-closeout problems as possible. This may be accomplished by establishing and disseminating a well-designed policy that clearly defines what conditions must exist for closeout, what the rights and responsibilities of the various parties are after closeout, how to handle unresolved issues remaining at closeout deadlines, and how to address issues/problems arising after closeout.

The following are some of the issues that should be addressed in any closeout policies and procedures developed for subgrantees:

- The subgrantee should close and settle its contracts/subgrants and reconcile all financial activity related to the grant prior to closing the agreement with its funding agency.
- All refunds due the awarding agency must be made before the closeout or submitted with the closeout documents.
- A closeout due date must be established for subgrantees that provides sufficient time for the funding organization to resolve issues in advance of its own closeout due date.

- A decision must be made whether to close subgrants as subgrantees are ready or to use a single closeout date for all subgrantees for a specific year of funding.
- Identification must be made of financial reports that are required for closeout. At a minimum, there should be a “final” report in the format that is routinely required of the organization closing the agreement. The reports should be no more complicated than is necessary to verify that all financial requirements have been met.
- The procedure for handling unclaimed/uncashed checks must be decided. State or local escheat legislation should be followed in addressing this issue. This will impact the Federal closeout process also.
- The procedure for handling pending claims and late arriving invoices after closeout must be addressed. Grantees should attempt to minimize any late claims, as costs not incurred prior to the expiration of the grant may not be paid.
- A decision must be made regarding how any refunds, rebates, or credits received after closeout will be handled as the Uniform Administrative Requirements necessitate.
- Reconciliation of grantor/grantee records must be addressed to ensure that expenditures are equal to or less than budget, and that cash received, appropriately adjusted, equals expenditures.
- How grantee- and subgrantee-owned property is to be treated at the end of the agreement must be determined. Property disposition requirements are discussed in Chapter II-11, *Property Management*, of this TAG.
- Closure of any special bank accounts required for the subagreement must be effected. This does not occur with direct grants.
- Fidelity bonds, if they were required for the subagreement, must be canceled. This is not a requirement for direct grants.
- Rights and responsibilities of the various parties after closeout has occurred must be determined, specifically those items addressed at 29 CFR 95.72 and 29 CFR 97.51; and any additional requirements established by the grantee or other funding organization. These rights and responsibilities include:
 - The awarding entity’s right to disallow costs and recover funds on the basis of a later audit or other review
 - The funded organization’s responsibility to return any funds due as a result of later refunds, corrections, subrecipient audit disallowances, or other transactions
 - Record retention and requirements for public access to records
 - Property management requirements
 - Audit and audit resolution requirements

- Notification to the subgrantee that closeout documentation is in order and that closeout has officially occurred.

CURRENT DOL CLOSEOUT PACKAGES

The DOL currently uses two different closeout packages for grants. One package is for governmental grantees and the other for non-governmental grantees. Each of the packages is described below.

Governmental Grantees

Among the forms required for the closeout of governmental grantees are the final financial report (ETA 9130) submitted via the Financial Reporting System and a Federally owned property listing. ETA also requires a listing of equipment with a unit acquisition cost of \$5,000 or more to which the DOL reserves the right to take title. The ETA closeout instructions provide further guidance to grantees in finalizing their closeouts:

- For non-formula grants, unless specifically provided for in guidance from ETA, the costs of closeout incurred after the end of the grant period of performance may not be charged to the grant.
- Unliquidated expenditures may be liquidated until final closeout reports are submitted.
- If indirect costs have been charged to the grant, a copy of the Indirect Cost Negotiation Agreement or Cost Allocation Plan must be submitted. The grantee must submit a proposal to its cognizant agency requesting final rates within six months after the end of the fiscal year.
- Final drawdowns should be made so that final grant costs equal final grant revenues. If a refund must be made to the DOL to achieve that equality, then this should be made through the PMS as well.
- Instructions for the return of later adjustments or disallowances are provided.

Non-Governmental Grantees

Non-governmental grantees must complete a different set of closeout forms. The package consists of the following forms:

- Grantee's Submittal of Closeout Documents
- Financial Report (appropriate version of the ETA 9130)
- If necessary, a copy of the approved indirect cost rate
- Grantee's release
- Grantee's assignment of refunds, rebates, and credits
- Government property closeout inventory certification

- Grantee's closeout tax certification.

Each of these forms is described below.

Grantee's Submittal of Closeout Documents. A cover sheet that lists all the documents included in the closeout package. This sheet may also be used by the grantee to track the adequacy/accuracy of the subgrantee's closeout submittal.

Financial Status Report. The ETA has opted to use the appropriate version of the ETA 9130 as required by their reporting instructions submitted via the Financial /reporting System. This report will be completed on a cash basis within the final closeout period.

Indirect Cost Rate. If indirect costs have been charged to the grant, a copy of the provisional or final rate must be included. If the grant is closed based on a provisional rate and the final rate is lower, the grantee is required to recalculate indirect costs and return all excess indirect costs within 45 days of the final rate approval letter.

Grantee's Release. The grantee certifies the release of the grantor agency from further monetary obligations under the grant. Certain specifically identified claims such as unclaimed wages (subject to escheat laws), Worker's Compensation claims, or other outstanding claims must be identified and the list attached to the grantee's release.

Grantee's Assignment of Refunds, Rebates, and Credits. The grantee waives claim to any refunds, rebates, or credits received after the grant has terminated and assures prompt remittance to the grantor agency.

Government Property Closeout Inventory Certification. This form provides for an inventory of all real or personal property purchases acquired with grant funds or received from the Federal government where the DOL reserves the right to take title, or a certification that no such property was acquired with grant funds.

Grantee's Closeout Tax Certification. This document provides assurances that the grantee/subgrantee has complied with all applicable tax requirements.

SUMMARY

In closeout, as with other subjects, care must be taken in interpretation of applicable statutes and regulations to ensure that requirements of recipients are not indiscriminately applied to subrecipients and that excess paperwork is not generated in the closeout process. Grantees must develop timetables and procedures that produce effective closeouts and meet the Federal final expenditure report submittal requirement of 90 days after the end of the three-year funding period.

Appendices

This part consists of six appendices to the technical content of Parts I and II. These appendices provide additional information and resources available to grantees and subgrantees to aid them in the proper management of One-Stop operations and ETA-funded grant programs. Appendices A through F are organized as follows:

Appendix A, *Cross-Reference of Administrative Requirements*, provides a chart indicating administrative requirements by type of organization.

Appendix B, *Applicable OMB Circulars and Related Regulations*, includes a listing of all the applicable circulars and the codification of circulars by DOL for use in ETA grant programs.

Appendix C, *Internet Resources*, includes a listing of resources available through the Internet to obtain the circulars and other financial and grant management information.

Appendix D, *Glossary of Terms and Acronyms*, defines financial terms applicable to grant programs drawn from the regulations and applicable circulars. Appendix D also presents a list of acronyms used in the document.

Appendix E, *Subrecipient and Vendor Distinctions*, provides assistance in distinguishing subrecipients from vendors. The contents of this appendix are based on the distinctions between subrecipient and vendor discussed in 29 CFR Part 96.

Appendix F, *Match and Leveraged Resources*, defines and distinguishes between match and leveraged resources and provides information on how to accurately report information in quarterly fiscal and narrative reports.

Appendix A

Cross Reference of Administrative Requirements

Requirement	Governmental Organizations	Nonprofit Organizations	Institutions of Higher Education	Commercial Organizations
Audit	29 CFR Part 99	29 CFR Part 99	29 CFR Part 99	29 CFR Part 96
Audit Resolution	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96
General Principles for Allowable Costs	2 CFR 225 Appendix A	2 CFR 230 Appendix A	2 CFR 220 Appendix A	48 CFR 31.2
Treatment of Selected Items of Cost	2 CFR 225 Appendix B	2 CFR 230 Appendix B	2 CFR 220 Appendix A, Item J,	48 CFR 31.2
Uniform Administrative Requirements	29 CFR Part 97	29 CFR Part 95	29 CFR Part 95	29 CFR Part 95 (grants only)
Lobbying Restrictions	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93
Suspension and Debarment	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E	29 CFR Part 98 Subparts A-E
Drug-Free Workplace	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F
Non-Discrimination (Civil Rights)	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31
Non-Discrimination (Basis of Handicap)	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32
EO Requirements (WIA only)	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37

Note: Additional requirements may be contained in program regulations related to ETA-funded grant programs.

Appendix B

OMB Circulars and Related Regulations

COST PRINCIPLES

2 CFR 220	<i>Cost Principles for Educational Institutions</i>
2 CFR 225	<i>Cost Principles for State, Local and Indian Tribal Governments</i>
2 CFR 230	<i>Cost Principles for Non-Profit Organizations</i>
48 CFR Chapter 1, Part 31	<i>Contract Cost Principles and Procedures (Commercial Organizations)</i>

ADMINISTRATIVE REQUIREMENTS

29 CFR Part 95	<i>Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and with Commercial Organizations, Foreign Governments, Organizations Under the Jurisdiction of Foreign Governments, and International Organizations (Based on OMB Circular A-110)</i>
29 CFR Part 97	<i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Based on OMB Circular A-102)</i>

AUDIT REGULATIONS AND REQUIREMENTS

29 CFR Part 96	<i>Audit Requirements for Grants, Contracts and Other Agreements</i>
29 CFR Part 99	<i>Audits of States, Local Governments and Non-Profit Organizations (Based on OMB Circular A-133)</i>
OMB Circular A-50	<i>Audit Follow-up</i>

MISCELLANEOUS DOL PROVISIONS

29 CFR Part 93	<i>Department of Labor Lobbying Regulations</i>
29 CFR Part 98	<i>Government-wide Debarment and Suspension (Nonprocurement) and Government-wide Requirements for Drug Free Workplace (Grants)</i>
29 CFR Part 31	<i>Nondiscrimination in Federally Assisted Programs of the Department of Labor— Effectuation of Title VI of the Civil Rights Act of 1964</i>
29 CFR Part 32	<i>Enforcement of Nondiscrimination on the Basis of Handicap in Programs or Activities Receiving or Benefiting from Federal Financial Assistance</i>
29 CFR Part 37	<i>Implementation of the Nondiscrimination and Equal Opportunity Provisions of the Workforce Investment Act of 1998 (WIA)</i>

Appendix C

Internet Resources

A listing of Web sites that provide guidance and information on audits, public funds, financial management, administrative requirements for Federal funding, and the programs covered by this TAG is presented below. Internet addresses change with some regularity, and this listing is current as of December 2010. If the listed address is wrong, a short search will usually result in obtaining the correct address.

REQUIRED PARTNERS

<http://www.doleta.gov/> United States (U.S.) Department of Labor (DOL), Employment and Training Administration (ETA) Web site. This is ETA's home page, containing links to ETA programs, policy issues, and news releases. On the home page, "ETA Program News and Updates" is updated frequently and contains items new and noteworthy, such as regulatory updates, solicitations for grant applications, and training opportunities. Additionally, there are links to ETA's library of research, policy, and budget documents, including Training and Employment Guidance Letters (TEGL's) and Training and Employment Notices (TEN's).

<http://www.doleta.gov/programs/> The ETA's adult programs Web site. This site provides information on adult training programs under WIA Title IB, the Wagner-Peyser Act, and provides links to additional ETA programs and information.

<http://www.doleta.gov/layoff> This Web site provides information on the Dislocated Workers programs authorized under Title IB of the WIA to workers, employers, and workforce development professionals. It provides a link to the Web site for National Emergency Grants, Rapid Response, and the Trade Adjustment Act (TAA) programs.

http://www.doleta.gov/youth_services/ The ETA's Youth programs Web site. This site contains information about the youth employment and training activities authorized by the WIA, including WIA Youth formula funded grants, Youth discretionary grants, and YouthBuild.

<http://www.dol.gov/vets> The home page of the DOL's Veterans' Employment and Training Services, or VETS. The VETS website has information for service providers, employers, and veterans, service members and families. Information provided includes success stories; Job For Veterans State Grants; transition services, compliance assistance for USERRA, veterans preference, and Vets-100/100a; employment services; competitive grants; research, and other resources.

<http://www.jobcorps.gov/home.aspx> The Web page for information on the Job Corps program funded under Title IC of the WIA. This site has information on enrollment in Job Corps, job placement, and employer resources.

<http://www.doleta.gov/seniors/> The Web site of the Senior Community Service Employment Program, or SCSEP. Funded under Title V of the Older Americans Act, SCSEP serves low-income persons who are age 55 or older and have poor employment prospects.

<http://www.doleta.gov/tradeact/> This is an ETA Web site that offers information on Trade Adjustment Assistance.

<http://doleta.gov/dinap> This is the Web site of the Division of Indian and Native American Programs (DINAP). Native American programs are authorized at Section 166 of the WIA. This site has a “What’s New?” section, as well as posting of DINAP bulletins.

<http://doleta.gov/msfw> The Web site of the National Farmworkers Jobs Program (NFJP) of the ETA. The site contains links to a resource library, as well as NFJP bulletins.

<http://ows.doleta.gov/unemploy/> Provides information on and links to the unemployment insurance compensation program.

<http://www.doleta.gov/wotc> This is the Web site for the Work Opportunity Tax Credit program, a Federal tax credit incentive that the Congress provides to private-sector businesses for hiring individuals from twelve target groups who have consistently faced significant barriers to employment.

<http://www.workforce3one.org> Workforce3 One is an e-learning, knowledge sharing web space that offers workforce professionals, employers, economic development, and education professionals a dynamic network featuring innovative workforce solutions. Online learning events, resource information, and tools help organizations learn how to develop strategies that enable individuals and businesses to be successful in the 21st century economy.

<http://www.ed.gov> The home page of the U.S. Department of Education (ED). This comprehensive Web site contains information on ED programs and offices, grants information, and current news and informational notices pertinent to ED programs.

<http://www2.ed.gov/about/offices/list/ovae/index.html?src=oc> As part of the Department of Education’s Office of Vocational and Adult Education (OVAE), this Web site provides information on adult education and literacy programs funded by ED.

<http://www2.ed.gov/about/offices/list/osers/index.html?src=oc> The home page for the Department of Education’s Rehabilitation Services Administration (RSA). Through services, training, research, and economic opportunities, RSA supports individuals with disabilities.

<http://www.acf.hhs.gov/programs/ocs/> This is the Web site of the Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services (HHS).

<http://www.hud.gov/offices/cpd/communitydevelopment/programs/> This site provides information from the Catalog of Federal Domestic Assistance (CFDA) on eligibility, application, and awards under the Community Services Block Grant Act.

ADDITIONAL PARTNERS

<http://www.doleta.gov/OA/> The Web site of the Office of Apprenticeship. The site contains information on the Registered Apprenticeship.

<http://www.acf.hhs.gov/> The U.S. Department of Health and Human Services (HHS) site for the Administration for Children and Families, the agency responsible for the Temporary Assistance to Needy Families (TANF) program (formerly referred to as Welfare).

<http://www.fns.usda.gov/snap/> U.S. Department of Agriculture (USDA) Supplemental Nutrition Assistance Program (formerly referred to as the Food Stamp program).

REGULATIONS AND CIRCULARS

<http://www.access.gpo.gov/nara/cfr/waisidx> National Archives and Records Administration index site for the Code of Federal Regulations (CFR). Provides links to specific regulations, *Federal Register* notices, public laws, and Privacy Act issuances. GPO Access will be archived in late 2011 as it migrates to FDSys: <http://www.gpo.gov/fdsys/>.

<http://www.gpo.gov/fdsys/> Federal Digital system (FDSys) is the Government Printing Offices official system of record. GPO Access will be archived in late 2011. FDSys provides free online access to official Federal Government publications. Through FDSys, you are able to search for documents and publications; browse for documents and publications; access metadata about documents and publication; and download documents and publications in multiple file formats

<http://www.gao.gov> The site for the General Accounting Office (GAO). Provides links to a financial audit manual, Comptroller General decisions, and GAO audit reports.

<http://www.whitehouse.gov/omb> The Office of Management and Budget (OMB) Web site. Provides links to all OMB circulars, compliance supplements, and OMB policy.

<http://www.dol.gov/oasam/grants/grants.htm> The DOL's Office of the Assistant Secretary for Administration and Management(OASAM) Grant Information and resources webpage. Contains links to DOL administrative regulations, debarment and suspension procedures, civil rights enforcement for DOL grant recipients, and general information about grants.

<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/cdg.pdf> This is a link to the DOL/OASAM publication, *Indirect Cost Rate Determination Guide, Cost Principles and Procedures for Non-Profit Organizations*.

<http://www.nara.gov> The home page of the National Archives and Records Administration.

<http://www.gpoaccess.gov/nara/index.html> National Archives and Records Administration, Office of the Federal Register home page. This site provides access to Federal regulations, public laws, and other public documents. GPO Access will be archived in late 2011 as it migrates to FDSys: <http://www.gpo.gov/fdsys/>.

<http://www.oig.dol.gov/aboutaudits.htm> This site, maintained by the DOL Office of the Inspector General, Office of Audit, provides a link to a pamphlet prepared by the Federal Chief Financial Officers titled *Highlights of the Single Audit Process*. In addition to the pamphlet, there is a brochure titled *Single Audit Basics and Where to Get Help*. These documents have been designed to provide a basic understanding of the single audit process. Finally, the website provides a link to the OMB operated Federal Audit Clearinghouse, which contains single audit reference information, the single audit data entry system, and the single audit database.

<http://www.frs.gov> The Federal Funding Accountability and Transparency Act Subaward Reporting System website. Created by OMB, this site is where prime recipient report subawardee and executive compensation information as required under the Federal Funding Accountability and Transparency Act of 2008.

OTHER FINANCIAL MANAGEMENT RESOURCES

<http://www.doleta.gov/grants/> Managed by the Employment and Training Administration's Office of Grants Management, contains information and resources pertaining to applying for a grant; a data of grant opportunities; a listing of grants awarded; grant financial reporting information and resources; grant payment information; and grant closeout information.

<http://fms.treas.gov> U.S. Treasury Department financial information site. Also has links to other government financial resource pages, including a link to for the Cash Management Improvement Act (CMIA) program.

<http://thomas.loc.gov/> The Library of Congress THOMAS System, a complete Congressional resource system. This site tracks legislation, committees, and all members.

<http://www.lcweb.loc.gov> The Library of Congress home page. This site is an excellent beginning place for research.

<http://nawb.org> The homepage of the National Association of Workforce Boards.

<http://www.naswa.org> The homepage for the National Association of State Workforce Agencies.

<http://www.aacc.nche.edu> The homepage for the National Association of Community Colleges.

<http://cfda.gov/> The Web site for the Catalog of Federal Domestic Assistance, or CFDA. The CFDA is a government-wide compendium of Federal programs, projects, services, and activities. The CFDA contains financial information pertaining to all programs administered by Federal agencies.

Appendix D

Glossary of Terms and Acronyms

GLOSSARY OF TERMS

This glossary defines financial terms applicable to the Employment and Training Administration (ETA) program referenced in this Technical Assistance Guide (TAG). It also defines programmatic terms where they have an impact on financial requirements, such as cost classification. These definitions apply to all ETA-funded programs. Source(s) are cited as appropriate. The definitions are

- Extracted directly from the “definitions” sections of the Workforce Investment Act (WIA) (PL 105-220 29 USC Sec 2801 et seq.) and/or corresponding WIA regulations (20 CFR 660.300)
- Extracted from other Federal sources, i.e., Treasury regulations related to the Cash Management Improvement Act (CMIA)
- Taken from Office of Management and Budget (OMB) circulars and related regulations.

In some instances, there may be more than one definition of a single term. To the extent possible, this TAG uses the more extensive definition or the definition found in the legislation. If additional explanatory information has been added to the definition, it is underlined. In addition, some terms may have similar definitions but are named differently, i.e., grant and award. These terms have been cross-referenced whenever possible.

Following the glossary is a list of acronyms used in both Part I and Part II of the TAG.

Accrued expenditures. The charges incurred by the grantee during a given period requiring the provision of funds for (1) goods and other tangible property received; (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees; and (3) other amounts becoming owed (by the grantee) under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 97.3]

Accrued income. The sum of (1) earnings during a given period from services performed by the grantee and goods and other tangible property delivered to purchasers and (2) amounts becoming owed to the grantee for which no current services or performance is required by the grantee. [29 CFR 97.3]

Acquisition cost of equipment. The net invoice price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property

usable for the purpose for which it was acquired. Other charges, such as the cost of installation, transportation, taxes, duty, or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the recipient's regular accounting practices. [29 CFR 95.2, 29 CFR 97.3]

Act. For the purposes of this TAG, Act means the Workforce Investment Act (WIA). If another legislative act is referenced, it will include the entire proper name of the legislation.

Administrative requirements. Those matters common to grants in general, such as financial management, kinds and frequency of reports, and retention of records. These are distinguished from *programmatic* requirements, which concern matters that can be treated only on a program-by-program or grant-by-grant basis, such as kinds of activities that can be supported by grants under a particular program. [29 CFR 97.3]

Adult. Except in Sections 127 and 132, the term "adult" means an individual who is age 18 or older. [WIA Section 101]

Adult education; adult education and literacy activities. The terms "adult education" and "adult education and literacy activities" have the meanings given the terms in Section 203. [WIA Section 101]

Advance. A payment made by U.S. Treasury check or other appropriate payment mechanism to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules. [29 CFR 95.2]

Approval or authorization of the awarding or cognizant Federal agency. Documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a state/local cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval. [OMB Circular A-87]

Area vocational education school. The term "area vocational education school" has the meaning given the term in Section 521 of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471). [WIA Section 101]

Award. Financial assistance that provides support or stimulation to accomplish a public purpose. Awards include grants and other agreements in the form of money or property in lieu of money, by the DOL to an eligible recipient. The term does not include technical assistance, which provides services instead of money; other assistance in the form of loans, loan guarantees, interest subsidies, or insurance; direct payments of any kind to individuals; or contracts that are required to be entered into and administered under procurement laws and regulations. (See **Grant**.) [29 CFR 95.2]

Awarding agency. (a) With respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, or (b) with respect to a subgrant, the party that awarded the subgrant. [2 CFR 225, 29 CFR 97.3]

Basic skills deficient. The term “basic skills deficient” means, with respect to an individual, that the individual has English reading, writing, or computing skills at or below the eighth grade level on a generally accepted standardized test or a comparable score on a criterion-referenced test. [WIA Section 101]

Calendar Year. The period between January 1 and December 31 of any year. For example, calendar year 2001 is January 1, 2001, through December 31, 2001.

Case management. The term “case management” means the provision of a client-centered approach in the delivery of services, designed (a) to prepare and coordinate comprehensive employment plans, such as service strategies, for participants to ensure access to necessary workforce investment activities and supportive services, using, where feasible, computer-based technologies, and (b) to provide job and career counseling during program participation and after job placement. [WIA Section 101]

Cash contributions. The grantee’s cash outlay, including the outlay of money contributed to the grantee or subgrantee by other public agencies and institutions, and private organizations and individuals. [29 CFR 97.3 and 95.2] When authorized by Federal legislation, Federal funds received from other assistance agreements may be considered as grantee or subgrantee cash contributions. [29 CFR 97.3 only]

Central service cost allocation plan. The documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users. [2 CFR 225]

CFDA number. The number assigned to a Federal program in the Catalog of Federal Domestic Assistance (CFDA). [29 CFR 99.105]

Check. A negotiable demand draft or warrant. [31 CFR 205.3 (CMIA)]

Chief elected official. (a) The chief elected executive officer of a unit of general local government in a local area, or (b) in a case in which a local area includes more than one unit of general local government, the individuals designated under the agreement described in Section 117(c)(1)(B). [WIA Section 101]

Claim. A written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice, or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management decision is made by the Federal awarding agency. [2 CFR 225]

Clearance pattern. The frequency distribution showing the proportion of a total amount disbursed that is debited to the payer’s bank account each day after the disbursement. [31 CFR 205.3 (CMIA)]

Closeout. The process by which the DOL determines that all applicable administrative actions and all required work of the award have been completed by the recipient and the DOL. [29 CFR 95.2]

Cognizant agency. The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this circular on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies. Ordinarily, the Federal agency providing the bulk of the funding is the cognizant agency. [2 CFR 225]

Cognizant agency for audit. The Federal awarding agency that provides the predominant amount of direct funding to a direct recipient unless OMB makes a specific agency cognizant for audit. [29 CFR 99.400(a)]

Commercial organization. Any business entity organized primarily for profit (even if its ownership is in the hands of a nonprofit entity) with a place of business located in or outside the United States. The term includes, but is not limited to, an individual, partnership, corporation, joint venture, association, or cooperative. [29 CFR 95.2]

Common Rule. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule*, originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles. [2 CFR 225]

Community-based organization. A private nonprofit organization that is representative of a community or a significant segment of a community and that has demonstrated expertise and effectiveness in the field of workforce investment. [WIA Section 101]

Contract. A mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 et seq. [2 CFR 225]

Corrective action. Action taken by the auditee that (1) corrects identified deficiencies, (2) produces recommended improvements, or (3) demonstrates that audit findings are either invalid or do not warrant auditee action. [29 CFR 99.105]

Cost. An amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund. [2 CFR 225]

Cost allocation plan (CAP). Central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. [2 CFR 225]

Cost objective. A function, organizational subdivision, contract, grant, or other activity for which cost data is needed and for which costs are incurred. [2 CFR 225]

Cost sharing or matching. The value of the third party in-kind contributions and the portion of the costs of a Federally assisted project or program not borne by the Federal government. [29 CFR 97.3]

Cost-type contract. A contract or subcontract under a grant in which the contractor or subcontractor is paid on the basis of the costs it incurs, with or without a fee. [29 CFR 97.3]

Customized training. Training (a) that is designed to meet the special requirements of an employer (including a group of employers), (b) that is conducted with a commitment by the employer to employ an individual on successful completion of the training, and (c) for which the employer pays for not less than 50 percent of the cost of the training. [WIA Section 101]

Date of completion. The date on which all work under an award is completed or the date on the award document, or any supplement or amendment thereto, on which DOL sponsorship ends. [29 CFR 95.2]

Day. A calendar day unless specified otherwise. [31 CFR 205.3 (CMIA)]

Department or DOL. The United States Department of Labor, including its agencies and organizational units. [20 CFR 660.300]

Designated region. A combination of local areas that are partly or completely in a single labor market area, economic development region, or other appropriate contiguous subarea of a state that is designated by the state under WIA Section 116(c), or a similar interstate region that is designated by two or more states under WIA Section 116(c)(4). [20 CFR 660.300]

Disallowed costs. Those charges to an award that the DOL determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award. [29 CFR 95.2]

Dislocated worker. An individual who

- (a) (i) has been terminated or laid off, or who has received a notice of termination or layoff, from employment;
- (ii)(I) is eligible for or has exhausted entitlement to unemployment compensation; or (II) has been employed for a duration sufficient to demonstrate, to the appropriate entity at a One-Stop center referred to in Section 134(c), attachment to the workforce, but is not eligible for unemployment compensation due to insufficient earnings or having performed services for an employer that were not covered under a state unemployment compensation law; and
- (iii) is unlikely to return to a previous industry or occupation;

- (b) (i) has been terminated or laid off, or has received a notice of termination or layoff, from employment as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise;
- (ii) is employed at a facility at which the employer has made a general announcement that such facility will close within 180 days; or
- (iii) for purposes of eligibility to receive services other than training services described in Section 134(d)(4), intensive services described in Section 134(d)(3), or supportive services, is employed at a facility at which the employer has made a general announcement that such facility will close;
- (c) was self-employed (including employment as a farmer, a rancher, or a fisherman) but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or
- (d) is a displaced homemaker. [WIA Section 101]

Displaced homemaker. An individual who has been providing unpaid services to family members in the home and who (a) has been dependent on the income of another family member but is no longer supported by that income, and (b) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment. [WIA Section 101]

Drawdown. Any process whereby states and other direct recipients request and receive Federal funds. Drawdown also means any process where subrecipients request and receive Federal funds from the primary recipient. [31 CFR 205.3 (CMIA)]

Economic development agencies. The term “economic development agencies” includes local planning and zoning commissions or boards, community development agencies, and other local agencies and institutions responsible for regulating, promoting, or assisting in local economic development. [WIA Section 101]

Eligible youth. Except as provided in subtitles C and D, the term “eligible youth” means an individual who

- (a) is not less than age 14 and not more than age 21;
- (b) is a low-income individual; and
- (c) is an individual who is one or more of the following:
 - (i) deficient in basic literacy skills
 - (ii) a school dropout
 - (iii) homeless, a runaway, or a foster child
 - (iv) pregnant or a parent
 - (v) an offender
 - (vi) an individual who requires additional assistance to complete an educational program, or to secure and hold employment. [WIA Section 101]

Eligible provider. The term “eligible provider,” used with respect to (a) training services, means a provider who is identified in accordance with Section 122(e)(3); (b) intensive services, means a provider who is identified or awarded a contract as described in Section 134(d)(3)(B); (c) youth activities, means a provider who is awarded a grant or contract in accordance with Section 123; or (d) other workforce investment activities, means a public or private entity

selected to be responsible for such activities, such as a One-Stop operator designated or certified under Section 121(d). [WIA Section 101]

Employment and training activity. An activity described in Section 134 that is carried out for an adult or dislocated worker. [WIA Section 101] [20 CFR 660.300]

EO data. Data on race and ethnicity, age, sex, and disability required by regulations implementing Section 188 of WIA governing nondiscrimination. These regulations are found at 29 CFR Part 37. [20 CFR 660.300]

Equipment. Tangible nonexpendable personal property, including exempt property charged directly to the award, having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with recipient policy, lower limits may be established. Equipment includes, but is not limited to, equipment acquired before the publication of these regulations and equipment transferred from prior years. [29 CFR 95.2] A grantee may use its own definition of equipment provided that such definition at least includes all equipment defined above. [29 CFR 97.3]

ETA. The Employment and Training Administration of the U.S. DOL. [20 CFR 660.300]

Excess property. Property under the control of the DOL that, as determined by the Secretary of Labor, is no longer required for its needs or the discharge of its responsibilities. [29 CFR 95.2]

Exempt property. Tangible personal property acquired in whole or in part with Federal funds, where the DOL has statutory authority to vest title in the recipient without further obligation to the Federal government. [29 CFR 95.2]

Expenditure report. For nonconstruction grants, the SF 269 “Financial Status Report” (or other equivalent report. For the WIA Title IB programs, this is the Quarterly Financial Status Report). [29 CFR 97.3]

Family. Two or more persons related by blood, marriage, or decree of court, who are living in a single residence, and are included in one or more of the following categories: (a) a husband, wife, and dependent children; (b) a parent or guardian and dependent children; (c) A husband and wife. [WIA Section 101]

Federal agency. Any United States executive department, military department, government corporation, government-controlled corporation, any other establishment in the Executive Branch (including the Executive Office of the President), or any independent regulatory agency. [29 CFR 95.2]

Federal award. Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. [29 CFR 99.105]

Federal awarding agency. The Federal agency that provides an award to the recipient. [2 CFR 215]

Federal financial assistance. Assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in Sections 99.205(h) and 99.205(i). [29 CFR 99.105]

Federal Fiscal Year (FY). The period between October 1 of a calendar year and September 30 of the following calendar year, with the subsequent year as the FY designator. For example, Fiscal Year 2002 or FY2002 is the period between October 1, 2001, and September 30, 2002.

Federal funds authorized. The total amount of Federal funds obligated by the DOL for use by the recipient. This amount may include any authorized carryover of unobligated funds from prior funding periods when permitted by the DOL's regulations or implementing instructions. [29 CFR 95.2]

Federal share. Of real property, equipment, or supplies, that percentage of the property's acquisition costs and any improvement expenditures paid with Federal funds. [2 CFR 215]

Federally recognized Indian tribal government. The governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat 688) certified by the Secretary of the Interior as eligible for the special programs and services provided by him through the Bureau of Indian Affairs. [29 CFR 97.3]

GAAP. Generally Accepted Accounting Principles. Accounting rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. Has the meaning specified in generally accepted government auditing standards (GAGAS). [OMB Circular A-133] Issued by the American Institute of Certified Public Accountants (AICPA). [29 CFR 99.105]

GAGAS. Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, which are applicable to financial audits. [29 CFR 99.105]

Government. A state or local government or a Federally recognized Indian tribal government. [29 CFR 97.3]

Governmental unit. The entire state, local, or Federally recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award. [OMB Circular A-87]

Governor. The chief executive of a state. [WIA Section 101]

Grant. An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal government to an eligible grantee. The term does not include technical assistance that provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, which the grantee is not required to account for (see **Award**). [29 CFR 97.3] For WIA, it means an award of WIA financial assistance by the DOL to an eligible WIA recipient. [20 CFR 660.300]

Grantee. The direct recipient of grant funds from the DOL. A grantee may also be referred to as a recipient. [20 CFR 660.300] The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document. [29 CFR 97.3]

Grantee department or agency. The component of a state, local, or Federally recognized Indian tribal government that is responsible for the performance or administration of all or some part of a Federal award. [2 CFR 225]

Grant officer. Any person authorized to enter into, modify, or terminate any financial assistance awards and make related determinations and findings. DOL grant officers shall be designated by name on a “Certificate of Appointment.” [29 CFR 95.2]

Indirect cost rate proposal. The documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate as described in Attachment E of the circular. [2 CFR 225] Indirect cost rates are not unique to governmental agencies and are addressed in all the OMB cost circulars.

Individual with a disability. (a) In general, an individual with any disability (as defined in Section 3 of the Americans with Disabilities Act of 1990 (42 U.S.C. 12102)); (b) “individuals with disabilities” means more than one individual with a disability. [WIA Section 101]

Intangible property and debt instruments. Include, but are not limited to, trademarks, copyrights, patents, and patent applications; and such property as loans, notes, and other debt instruments; lease agreements; stock; and other instruments of property ownership, whether considered tangible or intangible. [29 CFR 95.2]

Internal control. A process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. [29 CFR 99.105]

Internal control pertaining to the compliance requirements for Federal programs (internal control over Federal programs). A process, effected by an entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs. (1) Transactions are properly recorded and accounted for to (a) permit the preparation of reliable financial statements and Federal reports; (b) maintain accountability over assets; and (c) demonstrate compliance with laws, regulations, and other

compliance requirements. (2) Transactions are executed in compliance with (a) laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and (b) any other laws and regulations that are identified in the compliance supplement. (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition. [29 CFR 99.105]

Labor market area. An economically integrated geographic area within which individuals can reside and find employment within a reasonable distance or can readily change employment without changing their place of residence. Such an area shall be identified in accordance with criteria used by the Bureau of Labor Statistics of the DOL in defining such areas or similar criteria established by a Governor. [WIA Section 101]

Leasehold improvements. Improvements to leased property made by the lessee that usually revert to the lessor at the end of the life of the lease. If the lessee constructs new buildings on the land or reconstructs and improves existing buildings, the lessee has the right to use such facilities during the life of the lease, but they become the property of the lessor when the lease expires. [GAAP]

Literacy. An individual's ability to read, write, and speak in English, and to compute, and solve problems, at levels of proficiency necessary to function on the job, in the family of the individual, and in society. [20 CFR 660.300]

Local area. A Local Workforce Investment Area (LWIA) designated under Section 116. [WIA Section 101]

Local Board. A Local Workforce Investment Board (LWIB) established under WIA Section 117, to set policy for the local workforce investment system. [20 CFR 660.300]

Local educational agency. The term "local educational agency" has the meaning given the term in Section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801). [WIA Section 101]

Local government. A county, municipality, city, town, township, local public authority (including any public and Indian housing agency under the United States Housing Act of 1937), school district, special district, intrastate district, council of governments (whether or not incorporated as a nonprofit corporation under state law), any other regional or interstate government entity, or any agency or instrumentality of a local government. [29 CFR 97.3]

Local performance measure. A performance measure established under Section 136(c). [WIA Section 101]

Low-income individual. An individual who

- (a) receives, or is a member of a family that receives, cash payments under a Federal, state, or local income-based public assistance program;
- (b) received an income, or is a member of a family that received a total family income, for the six-month period prior to application for the program involved (exclusive of

- unemployment compensation, child support payments, payments described in subparagraph (a), and old-age and survivors' insurance benefits received under Section 202 of the Social Security Act (42 U.S.C. 402)) that, in relation to family size, does not exceed the higher of
- (i) the poverty line, for an equivalent period; or
 - (ii) 70 percent of the lower living standard income level, for an equivalent period;
- (c) is a member of a household that receives (or has been determined within the six-month period prior to application for the program involved to be eligible to receive) food stamps pursuant to the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.);
- (d) qualifies as a homeless individual, as defined in Subsections (a) and (c) of Section 103 of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11302);
- (e) is a foster child on behalf of whom state or local government payments are made; or
- (f) in cases permitted by regulations promulgated by the Secretary of Labor, is an individual with a disability whose own income meets the requirements of a program described in subparagraph (a) or of subparagraph (b), but who is a member of a family whose income does not meet such requirements. [WIA Section 101]

Lower living standard income level. That income level (adjusted for regional, metropolitan, urban, and rural differences and family size) determined annually by the Secretary of Labor based on the most recent lower living family budget issued by the Secretary. [WIA Section 101]

Major program. A Federal program determined by the auditor to be a major program in accordance with Section 99.520 or a program identified as a major program by a Federal agency or pass-through entity in accordance with Section 99.215(c). A threshold of \$300,000 or 3 percent of total Federal expenditures is the usual standard, subject to the requirement of the regulations. [29 CFR 99.105]

Nonprofit organization. Any corporation, trust, association, cooperative, or other organization which (1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; (2) is not organized primarily for profit; and (3) uses its net proceeds to maintain, improve, and/or expand its operations. For this purpose, the term "nonprofit organization" excludes (a) colleges and universities; (b) hospitals; (c) state, local, and Federally recognized Indian tribal governments; and (d) those nonprofit organizations that are excluded from coverage of this circular in accordance with Paragraph 5. The organizations excluded from coverage are large and operate as commercial concerns for purposes of applicability of cost principles. They are listed in Attachment C to the circular. [2 CFR 230]

Nontraditional employment. Occupations or fields of work for which individuals from one gender comprise less than 25 percent of the individuals employed in each such occupation or field of work. [WIA Section 101]

Obligations. The amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period. [29 CFR 97.3] For purposes of the reallocation process described at 20 CFR 667.150, the Secretary also treats as state obligations any amount allocated by the state under WIA Sections 128(b) and 133(b) to a single area state or to a balance

of state local area administered by a unit of the state government, and inter-agency transfers and other actions treated by the State as encumbrances against amounts reserved by the state under WIA Sections 128(a) and 133(a) for statewide workforce investment activities. [20 CFR 667.300]

Offender. Any adult or juvenile (a) who is or has been subject to any stage of the criminal justice process, for whom services under this Act may be beneficial; or (b) who requires assistance in overcoming artificial barriers to employment resulting from a record of arrest or conviction. [WIA Section 101]

Older individual. An individual age 55 or older. [WIA Section 101]

OMB. The United States Office of Management and Budget. [29 CFR 97.3]

On-the-job training. Training by an employer that is provided to a paid participant while engaged in productive work in a job that (a) provides knowledge or skills essential to the full and adequate performance of the job; (b) provides reimbursement to the employer of up to 50 percent of the wage rate of the participant, for the extraordinary costs of providing the training and additional supervision related to the training; and (c) is limited in duration as appropriate to the occupation for which the participant is being trained, taking into account the content of the training, the prior work experience of the participant, and the service strategy of the participant, as appropriate. [WIA Section 101]

One-Stop operator. One or more entities designated or certified under Section 121(d). [WIA Section 101]

One-Stop partner. (a) An entity described in Section 121(b)(1); and (b) an entity described in Section 121(b)(2) that is participating, with the approval of the local board and chief elected official, in the operation of a One-Stop delivery system. [WIA Section 101]

Operating Lease. A lease that does not qualify as a capital lease. [GAAP]

Out-of-school youth. (a) an eligible youth who is a school dropout; or (b) an eligible youth who has received a secondary school diploma or its equivalent but is basic-skills deficient, unemployed, or underemployed. [WIA Section 101]

Outlays (expenditures). Charges made to the project or program. They may be reported on a cash or accrual basis. For reports prepared on a cash basis, outlays are the sum of actual cash disbursement for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the amount of cash advances and payments made to contractors and subgrantees. For reports prepared on an accrued expenditure basis, outlays are the sum of actual cash disbursements, the amount of indirect expense incurred, the value of in-kind contributions applied, and the new increase (or decrease) in the amounts owed by the grantee for goods and other property received, for services performed by employees, contractors, subgrantees, subcontractors, and other payees, and other amounts becoming owed under programs for which no current services or performance are required, such as annuities, insurance

claims, and other benefit payments. [29 CFR 97.3] ETA requires outlays (expenditures) to be reported on an accrual basis.

Outlying area. The United States Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and The Republic of Palau. [WIA Section 101] [20 CFR 660.300]

Participant. An individual who has been determined to be eligible to participate in and who is receiving services (except follow-up services authorized under this title) under a program authorized by this title. Participation shall be deemed to commence on the first day, following determination of eligibility, on which the individual began receiving subsidized employment, training, or other services provided under this title. [WIA Section 101] Also, a participant is a person registered under 20 CFR 663.105 or 664.215. [20 CFR 660.300]

Personal property. Property of any kind except real property. It may be tangible, having physical existence, or intangible, having no physical existence, such as copyrights, patents, or securities. [29 CFR 95.2]

Postsecondary educational institution. An institution of higher education, as defined in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088). [WIA Section 101]

Poverty line. Poverty line (as defined by OMB and revised annually in accordance with Section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2))) applicable to a family of the size involved. [WIA Section 101]

Prior approval. Securing the awarding agency's permission in advance to incur cost for those items that are designated as requiring prior approval by the circular. Generally, this permission will be in writing. Where an item of cost requiring prior approval is specified in the budget of an award, approval of the budget constitutes approval of that cost. [2 CFR 230]

Program income. Gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award (see exclusions in Section 95.24(e) and (h)). Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under Federally funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of them. [29 CFR 95.2]

Program Year (PY). The period between July 1 of a calendar year and June 30 of the following calendar year. The PY designator is the year the period begins. For example, Program Year 2001 or PY2001 is the period between July 1, 2001 and June 30, 2002.

Project costs. All allowable costs, as set forth in the applicable Federal cost principles, incurred by a recipient, and the value of the contributions made by third parties in accomplishing the objectives of the award during the project period. [29 CFR 95.2]

Project period. The period established in the award document during which Federal sponsorship begins and ends. [29 CFR 95.2]

Property. Unless otherwise stated, real property, equipment, intangible property, and debt instruments. [29 CFR 95.2]

Public assistance. Federal, state, or local government cash payments for which eligibility is determined by a needs or income test. [WIA Section 101]

Public assistance cost allocation plan. A narrative description of the procedures that will be used in identifying, measuring, and allocating all administrative costs to all of the programs administered or supervised by state public assistance agencies as described in Attachment D of the circular. [2 CFR 225]

Questioned cost. A cost that is questioned by the auditor because of an audit finding (1) that resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. [29 CFR 99.105]

Rapid response activity. An activity provided by a state, or by an entity designated by a state, with funds provided by the state under Section 134(a)(1)(A), in the case of a permanent closure or mass layoff at a plant, facility, or enterprise, or a natural or other disaster, that results in mass job dislocation, in order to assist dislocated workers in obtaining reemployment as soon as possible, with services including

- (a) the establishment of on-site contact with employers and employee representatives
 - (i) immediately after the state is notified of a current or projected permanent closure or mass layoff; or
 - (ii) in the case of a disaster, immediately after the state is made aware of mass job dislocation as a result of such disaster
- (b) the provision of information and access to available employment and training activities
- (c) assistance in establishing a labor-management committee, voluntarily agreed to by labor and management, with the ability to devise and implement a strategy for assessing the employment and training needs of dislocated workers and obtaining services to meet such needs
- (d) the provision of emergency assistance adapted to the particular closure, layoff, or disaster
- (e) the provision of assistance to the local community in developing a coordinated response and in obtaining access to state economic development assistance. [WIA Section 101]

Real property. Land, including land improvements, structures, and appurtenances thereto, excluding movable machinery and equipment. [29 CFR 97.3] Real property includes, but is not limited to, real property acquired before publication of these regulations and real property transferred from prior years. [29 CFR 95.2]

Recipient. An organization receiving financial assistance directly from the DOL to carry out a project or program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations such as, but not limited to, community action agencies, research institutes, educational associations, and health centers. The term also includes commercial organizations and foreign or international organizations (such as agencies of the United Nations) that are recipients, subrecipients, or contractors or subcontractors of recipients or subrecipients. [29 CFR 95.2] The state is the recipient of funds awarded under WIA Sections 127(b)(1)(C)(i)(II), 132(b)(1)(B) and 132(b)(2)(B). [20 CFR 660.300]

Register. The process for collecting information to determine an individual's eligibility for services under WIA Title I. Individuals may be registered in a variety ways, as described in 20 CFR 663.105 and 20 CFR 664.215. [20 CFR 660.300]

Request for funds. A solicitation for funds that is completed and submitted in accordance with Federal agency guidelines. Request for funds also means a properly and fully completed application requesting funds that is submitted by the subrecipient in accordance with state guidelines. [31 CFR 205.3 (CMIA)]

Secondary school. The term "secondary school" has the meaning given the term in Section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801). [WIA Section 101]

Secretary. Secretary of Labor, and the term means such Secretary for purposes of Section 503. [WIA Section 101]

Self-certification. An individual's signed attestation that the information he/she submits to demonstrate eligibility for a program under Title I of WIA is true and accurate. [20 CFR 660.300]

Share. When referring to the awarding agency's portion of real property, equipment, or supplies, means the same percentage as the awarding agency's portion of the acquiring party's total costs under the grant to which the acquisition cost of the property was charged. Only costs are to be counted, not the value of third-party in-kind contributions. [29 CFR 97.3]

Small award. A grant or cooperative agreement not exceeding the small purchase [simplified acquisition] threshold fixed at 41 U.S.C. Section 403(11) (currently \$100,000). [29 CFR 95.2]

State board. A state workforce investment board established under Section 111. [WIA Section 101] [20 CFR 660.300]

State. Each of the several states of the United States, the District of Columbia, and the Commonwealth of Puerto Rico. [WIA Section 101] State does not include outlying areas. [20 CFR 660.300]

Subgrant. An award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement but does not include procurement purchases, nor does it include any form of assistance that is excluded from the definition of grant in this part. [29 CFR 97.3]

Subgrantee. The government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided. [29 CFR 97.3]

Subrecipient. A non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program but does not include an individual who is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a subrecipient and a vendor is provided in Section 99.210. [29 CFR 99.105]

Supplies. All personal property excluding equipment, intangible property, and debt instruments as defined in this section, and inventions of a contractor conceived or first actually reduced to practice in the performance of work under a funding agreement (“subject inventions”), as defined in 37 CFR Part 401, *Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts, and Cooperative Agreements*. [29 CFR 95.2]

Supportive services. Services such as transportation, child care, dependent care, housing, and needs-related payments that are necessary to enable an individual to participate in activities authorized under this title, consistent with the provisions of this title. [WIA Section 101]

Suspension. Depending on the context, either (1) temporary withdrawal of the authority to obligate grant funds pending corrective action by the grantee or subgrantee or a decision to terminate the grant, or (2) an action taken by a suspending official in accordance with agency regulations implementing Executive Order 12549 to immediately exclude a person from participating in grant transactions for a period, pending completion of an investigation and such legal or debarment proceedings as may ensue. [29 CFR 97.3]

Termination. Permanent withdrawal of the authority to obligate previously awarded grant funds before that authority would otherwise expire. Also, the voluntary relinquishment of that authority by the grantee or subgrantee. Termination does not include (1) withdrawal of funds awarded on the basis of the grantee’s underestimation of the unobligated balance in a prior period; (2) withdrawal of the unobligated balance as of the expiration of a grant; (3) refusal to extend a grant or award additional funds, to make a competing or noncompeting continuation, renewal, extension, or supplemental award; or (4) voiding of a grant upon determination that the award was obtained fraudulently, or was otherwise illegal or invalid from inception. [29 CFR 97.3]

Terms of a grant or subgrant. All requirements of the grant or subgrant, whether in statute, regulations, or the award document. [29 CFR 97.3]

Third-party in-kind contributions. The value of non-cash contributions provided by non-Federal third parties. Third-party in-kind contributions may be in the form of real property, equipment, supplies, or other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program. [29 CFR 95.2]

Treasury/State agreements. Agreements that set forth the terms and conditions for implementing the funding arrangement for a program or group of programs, between the Federal government and state recipients. The agreement must include, but not be limited to, programs involved, funding techniques, interest calculation method, and clearance pattern method. [31 CFR 205.3 (CMIA)]

Types of compliance requirements. The types of compliance requirements listed in the compliance supplement. Examples include allowed or unallowed activities, allowable costs/cost principles, cash management, eligibility, matching, level of effort, earmarking, and reporting. [29 CFR 99.105]

Unemployed individual. An individual who is without a job and who wants and is available for work. The determination of whether an individual is without a job shall be made in accordance with the criteria used by the Bureau of Labor Statistics of the DOL in defining individuals as unemployed. [WIA Section 101]

Unit of general local government. Any general-purpose political subdivision of a state that has the power to levy taxes and spend funds, as well as general corporate and police powers. [WIA Section 101]

Unliquidated obligations. For reports prepared on a cash basis, the amount of obligations incurred by the grantee that has not been paid. For reports prepared on an accrued expenditure basis, they represent the amount of obligations incurred by the grantee for which an outlay has not been recorded. [29 CFR 97.3]

Unobligated balance. The portion of the funds authorized by the Federal agency that has not been obligated by the grantee and is determined by deducting the cumulative obligations from the cumulative funds authorized. [29 CFR 97.3]

Unrecovered indirect cost. The difference between the amount awarded and the amount that could have been awarded under the recipient's approved negotiated indirect cost rate. [29 CFR 95.2]

Vendor. A dealer, distributor, merchant, or other seller providing goods or services that is required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program. [29 CFR 99.105]

Veteran.

(a) Veteran. An individual who served in the active military, naval, or air service, and who was discharged or released from such service under conditions other than dishonorable.

(b) Recently separated veteran. Any veteran who applies for participation under this title within 48 months after the discharge or release from active military, naval, or air service. [WIA Section 101]

Vocational education. The term “vocational education” has the meaning given the term in section 521 of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471). [WIA Section 101]

Wagner-Peyser Act. The Wagner-Peyser Act of June 6, 1933, as amended, codified at 29 U.S.C. 49 et seq. [20 CFR 660.300]

WARN. Worker Adjustment and Retraining Notification Act, which offers protection to workers, their families, and communities by requiring employers to provide written notice 60 days in advance of covered plant closings and covered mass layoffs. This notice must be provided to either affected workers or their representatives (e.g., a labor union), to the Dislocated Worker Unit, and to the appropriate unit of local government. [Workforce Tool Kit Glossary]

WIA. Workforce Investment Act. [20 CFR 660.300]

Workforce investment activities. The array of activities permitted under Title I of the WIA, which include employment and training activities for adults and dislocated workers, as described in WIA Section 134, and youth activities, as described in WIA Section 129. [20 CFR 660.300]

Workforce investment activity. An employment and training activity, and a youth activity. [WIA Section 101]

Working capital advance. A procedure whereby funds are advanced to the recipient to cover its estimated disbursement needs for a given initial period. [29 CFR 95.2]

Youth council. A council established under Section 117(h). [WIA Section 101]

Youth activity. An activity described in Section 129 that is carried out for eligible youth (or as described in Section 129(c)(5)). [WIA Section 101]

ACRONYMS

ADA	Americans with Disabilities Act
ADM	Administrative Activities
ADR	Alternative Dispute Resolution
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
ARB	Administrative Review Board
AS&T	Administrative Staff and Technical Staff
ASMB	Assistant Secretary for Management and Budget
ATELS	Apprenticeship Training, Employment, and Labor Services
CAP	Cost Allocation Plan
CBO	Community Based Organization
CEO	Chief Elected Official
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
CPA	Certified Public Accountant
CRA	Construction, Rehabilitation, Acquisition
DHHS	Department of Health and Human Services
DINAP	Division of Indian and Native American Programs
DOL	Department of Labor
DOT	Department of Transportation
ED	Department of Education
EFT	Electronic Funds Transfer
EIMS	Electronic Information Management System
E.O.	Executive Order
EST	Eastern Standard Time
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FD (1)	Findings and Determinations
FD (2)	Final Determination
FICA	Federal Insurance Contributions Act
FFATA	Federal Funding Accountability and Transparency Act
FP/PBC	Fixed-Price/Performance Based Contract
FSR	Financial Status Report
FSRS	FFATA Subaward Reporting System
FTE	Full-Time Equivalent
FY	Fiscal Year
G&A	General and Administrative
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
ICM	Intake and Case Management Activities
IFB	Invitation for Bid

INA	Indian and Native American
IT	Information Technology
ITA	Individual Training Account
JSA	Job Search Assistance
JTPA	Job Training Partnership Act
LCD	Liquid Crystal Display
LWIA	Local Workforce Investment Area
LWIB	Local Workforce Investment Board
MOU	Memorandum of Understanding
NFJP	National Farmworkers Jobs Program
NOI	Notice of Intent
NOO	Notice of Obligation
NPS	Non-Personnel Services
OALJ	Office of the Administrative Law Judge
OASAM	Office of the Assistant Secretary for Administration and Management
OIG	Office of the Inspector General
OJT	On-the-Job Training
OMB	Office of Management and Budget
OVAE	Office of Vocational and Adult Education
PIN	Personal Identification Number
PMS	Payment Management System
PY	Program Year
QFSR	Quarterly Financial Status Report
RFP	Request for Proposal
RSA (1)	Resource Sharing Agreement
RSA (2)	Rehabilitative Services Administration
RTS	Random Time Sampling
SAA	Single Audit Act of 1984 and the Single Audit Act Amendments of 1996
SCSEP	Senior Community Service Employment Program
SESA	State Employment Service Agency
SF	Standard Form
SGA	Solicitation for Grant Application
SWCAP	State-Wide Cost Allocation Plan
TAA	Trade Adjustment Act
TAG	Technical Assistance Guide
TANF	Temporary Assistance to Needy Families
TEGL	Training and Employment Guidance Letter
THOMAS	The Library of Congress's resource system that tracks legislation, committees, and all members
UI	Unemployment Insurance
U.S.	United States
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USES	United States Employment Service
USPS	United States Postal Service
WARN	Worker Adjustment and Retraining Notification Act
WIA	Workforce Investment Act

Appendix E

Subrecipient and Vendor Distinctions

The applicability of the Workforce Investment Act (WIA), its regulations, and other program regulations, including the Office of Management and Budget (OMB) circulars, is limited to recipients and subrecipients funded by those programs. Thus, the distinction between subrecipients and vendors becomes critical to the program. Payments received by a vendor for goods or services are not considered to be Federal awards. To aid recipients/grantees and subrecipients/subgrantees in making the proper distinctions, the following guidance is provided. The descriptions have been drawn from 29 CFR 99.210.

SUBRECIPIENTS

A subrecipient is a legal entity to which a subaward of Federal funds is made and that is accountable to the recipient for the use of the funds provided. When the organization performs the following activities, a Federal award to a subrecipient is indicated:

- Determines eligibility for the Federally funded program
- Has its performance measured against the objectives of the Federal program
- Has responsibility for programmatic decision-making
- Has responsibility for adherence to applicable Federal program compliance requirements (for example, the regulations)
- Uses the Federal funds to carry out a program of the organization as opposed to providing goods or services for a program.

VENDORS

A vendor is a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. The following activities are indicative of a vendor relationship with an organization:

- Provides the goods and services within normal business operations
- Provides similar goods or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the Federal program
- Is not subject to the Federal compliance requirements of the program.

In making the determinations of subrecipients and vendors, states, direct grantees, Local Workforce Investment Boards (LWIBs), and other subgrantees should take into account all of the characteristics related to the type of provider. When deciding whether a vendor or subrecipient relationship exists, it is the relationship that matters, not the label on the award document, be it grant, contract, subgrant, or subcontract. No one factor should be taken in isolation; all the applicable criteria for each decision should be reviewed. However, under no circumstances should a designation of vendor be made for providers that have a financial or performance requirement related to eligibility or selection of participants. As previously stated, the designations of subrecipient and vendor relate to type of product or service provided, and not to the type of agreement document used or whether that agreement is called a contract or a subgrant.

The following chart includes a list of indicators that may be of assistance in distinguishing subrecipients from vendors. This guidance is based in part on the information found in 29 CFR 99.210.

Indicators of Subrecipient and Vendor Relationships

Factor	Vendor	Subrecipient
Activity ¹	Sell Deliverables (goods/services)	Provide services
Assistance Arrangement	Buyer-Seller	Financial assistance to operate a program
Closeout Package	Final invoice	Comprehensive
Control	Control is outcome focused	Control is on process
Development Costs	Absorbed	Controlled
Extent of Flexibility	Bound to adhere to specific contract terms	Latitude to make decision within terms of agreement
Federal Rules	N/A	Compliance
On-the-Job Training	Subgrantee developed (direct employer award)	Award to broker
Payment Basis ²	Is paid for specific deliverable	Is paid for services whether expensed as a deliverable or not
Performance Measured ³	Against the specific requirements of contract	Against the performance outcomes of the financial assistance award
Product Development	Develops product and delivers from inventory	Controls development
Public Policy	Contract specific clauses	Standard statement of assurances
Purpose of the Award	To provide specific goods or services	To carry out a program goal
Receipt of Funds	Number of items delivered	Costs incurred
Risk	Risk to vendor	Share risk with awarding agency
Type of Training Referral	Slotting on an individual referral basis	Filling a class-sized training program
Type of Market	For sale within normal business operation; existing product tailored to the program solicitation	Customized for specific program purposes
Type of Product	Provide specific product or service ancillary to the Federal program	Design a program to meet a broader goal such as performance outcomes

¹There may be instances where it is possible to obtain the same type of services under either a vendor or a subrecipient award.

²Federal reform efforts are now shifting emphasis from paying for process to paying for results. Such performance and outcome-based payments are possible under both vendor and subrecipient awards.

³Same as 2 above.

Appendix F

Match and Leveraged Resources

INTRODUCTION

This Appendix defines match and leveraged resources; distinguishes between them; and provides information on how to accurately report this information in quarterly fiscal and narrative reports. It contains the following sections:

1. Match
 - Definition
 - Match expenditures
 - Reporting

2. Leveraged Resources
 - Definition
 - Match expenditures
 - Reporting

DEFINITION: MATCH

Match is defined in the Uniform Administrative Requirements applicable to ETA grant programs at 29 CFR 97.24 and 29 CFR 95.23. Match is defined as *additional non-Federal resources expended to further the grant objectives, if required either by statute or within the grant agreement as a condition of funding*. All matching funds must be spent on allowable grant activities and in accordance with the cost principles. The grantee cannot claim a cost as both an allowable cost (to be reimbursed from grant revenue) and as a match expenditure.

MATCH EXPENDITURES

There are two types of match expenditures: cash and in-kind contributions. *Cash* match reflects additional funds or services (allowable costs) provided and paid for by the grantee and/or any subrecipient from non-Federal funds that are in support of grant objectives and outcomes. *Cash* match includes unreimbursed allowable indirect costs. The value of the cash match is the actual costs incurred as reflected in the grantee's accounting system. *In-kind contributions* are the products, space or services provided by a third party organization, and not paid for by the

grantee or a subrecipient, but which would represent allowable costs if paid for with grant funds. Again, these contributions must support allowable grant activity and outcomes. The rules that apply to determining the value of such services are found in the regulations at 29 CFR 97.24(b)(7) and 95.23(c-h). Examples of in-kind contributions would be personal services provided by volunteers or paid non-grantee staff, equipment and supplies, or space provided by another organization at no cost to the grant.

In order to qualify as match, the costs cannot have been paid from Federal funds, been charged to program income or used to match other Federal match requirements, nor have been for costs that are unallowable under grant regulations. Records must be maintained that support the cash match costs within the grantee or subrecipient accounting system and be available for audit and review. For third party contributions, the support for the value, including the methods used to determine the value, must be verifiable from the records of the contributing organization or be maintained by the grantee.

MATCH REPORTING

For ETA programs, match may be required by statute (as in the former Welfare to Work program) or as a condition of funding (reflected in the grant agreement). If match is required, it will be reflected on the SF-424A Budget and must be reported on line 10.k. of the ETA-9130 Quarterly Financial Report.

DEFINITION: LEVERAGED RESOURCES

Leveraged Resources are not defined in regulation or any related administrative requirements. However, most Federal agencies use the term “leveraged resources,” and for ETA programs, the term has been defined to mean *all resources used by the grantee to support grant activity and outcomes, whether or not those resources meet the standards required for match.* So for ETA programs, leveraged resources means both allowable match and other costs that do not rise to the requirements of the match regulations, but which support the outcomes of grant activity.

LEVERAGED RESOURCES EXPENDITURES

All leveraged resources must be expended on costs that are allowable under the Circulars and used to further grant activity and outcomes. The costs of leveraged resources may be paid for with either Federal or non-Federal funds. Examples of costs that would be considered as leveraged resources are the costs of services provided to grant participants that are funded by another Federal program such as the WIA formula grant program, and the purchase or construction of a structure that will house grant activity which is paid for by the organization using non-Federal resources.

LEVERAGED RESOURCES REPORTING

ETA requires that all leveraged resources be reported in the quarterly program narrative report. In addition, some leveraged resources are to be reported on the ETA-9130 Quarterly Financial Report. Include on line 10.k. of the report all costs of the grant recipient and/or subrecipients as well as all third party in-kind contributions that would qualify as match but are in excess of the match requirement which could be zero (\$0.00) dollars. Include on line 11.a. of the report all allowable costs for goods and services provided to grant participants or in support of the grant program which are paid for by the grant recipient and/or subrecipients using other Federal grant funds. Do not include on line 11.a. the allowable costs for goods and services provided to grant participants or in support of the grant program which are paid for by grant partner organizations which are not also subrecipients under the grant.

Also note that all costs that could count as match incurred in support of the grant program still represent the recipient share of the grant costs and must be reported on the quarterly ETA-9130 even when there is no match or leveraged resources requirement.

Below is a schematic illustrating the types of leveraged resources a grantee may have and how they are to be reported. Also included are examples of each category.

