

SDWP Operations Manual  
Chapter 6  
Financial Management

Table of Contents

I.	Introduction.....	5
II.	Administrative and Internal Controls .....	6
A.	Management Controls .....	7
1.	<i>Personnel Supervision</i> .....	7
2.	<i>Expenditure Control</i> .....	7
3.	<i>Inventory Control</i> .....	8
III.	Accounting System.....	8
A.	Separate Recording of Funds.....	8
B.	Accrual Reporting .....	8
C.	Accuracy, Updated, and Availability of Financial Records.....	8
D.	Financial Records .....	9
1.	<i>Cash Receipts Register/Journal</i> .....	9
2.	<i>Cash Disbursement Register</i> .....	9
3.	<i>General Ledger</i> .....	9
4.	<i>General Journal</i> .....	9
5.	<i>Payroll Records</i> .....	9
E.	Standards of Documentation.....	9
F.	Reporting Requirements.....	10
1.	<i>Invoice</i> .....	10
2.	<i>In-Kind/Cash Match Report</i> .....	10
3.	<i>Program Income Report</i> .....	10
IV.	Cost and Cost Categories .....	10
A.	Costs in General .....	10
B.	Costs Principles Specific to WIOA .....	11
C.	Cost Categories .....	12
1.	<i>Administration</i> .....	12
2.	<i>Program</i> .....	12
V.	Allowable Costs.....	12
A.	Allowable Cost Guidelines .....	12
B.	General Guidelines for Allowable Costs .....	13
C.	Allowable Cost References .....	13
VI.	Negotiated Profit .....	14
VII.	Match and Leveraged Resources .....	14
A.	Match Definition.....	14
B.	Match Expenditures.....	14
1.	<i>Cash Match</i> .....	14
2.	<i>In-Kind Contributions</i> .....	14
3.	<i>Contract Payment Contingent on Meeting Contractual Match Requirement</i> .....	15

4.	<i>Leveraged Resources Definition</i> .....	15
5.	<i>Leveraged Resources Expenditures</i> .....	15
6.	<i>Leveraged Resources Tracking and Reporting</i> .....	15
<b>VIII.</b>	<b>Stand-In Costs</b> .....	<b>16</b>
A.	General Rules & Regulations .....	16
1.	<i>Audit Resolution Activity</i> .....	16
2.	<i>In General</i> .....	16
B.	Matching Costs (& Funds) Distinguished .....	16
C.	In-Kind Costs (& Contributions) Distinguished .....	16
D.	Stand-In Cost Criteria.....	16
E.	Examples of Stand-In Cost .....	17
F.	Reporting .....	17
<b>IX.</b>	<b>Program Income</b> .....	<b>17</b>
A.	General Rules & Regulations .....	17
B.	Reporting .....	17
C.	Accounting.....	18
D.	Excessive Program Income Balances .....	18
E.	Types and Examples of Program Income.....	18
1.	<i>Fees</i> .....	18
2.	<i>Conferences</i> .....	18
3.	<i>Rental or User Fees</i> .....	18
4.	<i>Sale of Product</i> .....	19
5.	<i>Revenues in Excess of Costs</i> .....	19
6.	<i>Interest Income</i> .....	19
F.	Items that are NOT Program Income.....	19
1.	<i>Credits</i> .....	19
2.	<i>Royalties and License Fees</i> .....	19
3.	<i>Sale of Property</i> .....	19
4.	<i>For-profit Companies</i> .....	19
5.	<i>Donations/Contributions</i> .....	20
6.	<i>Non-federal Source Funds</i> .....	20
7.	<i>Matching Funds</i> .....	20
8.	<i>Interest Income</i> .....	20
G.	General Use of Program Income .....	20
1.	<i>Cost Limitations</i> .....	20
2.	<i>Return of Program Income</i> .....	20
3.	<i>Usage Restriction</i> .....	20
4.	<i>Tracking</i> .....	20
5.	<i>Loans Prohibited</i> .....	21
6.	<i>Disallowed Costs</i> .....	21
7.	<i>Equipment Purchases</i> .....	21
<b>X.</b>	<b>Cash Advances</b> .....	<b>21</b>
A.	Financial Need .....	21
B.	Procedure .....	21
C.	Limitation.....	21
D.	Repayment Terms.....	21

E.	Interest Earned .....	21
<b>XI.</b>	<b>Reporting Requirements .....</b>	<b>22</b>
A.	Monthly Invoices .....	22
B.	Limitations and Due Dates.....	22
C.	Program Income and In-kind/Stand-in Reports.....	22
D.	Equipment Purchases .....	22
E.	Correct and Complete Documentation .....	22
F.	Additional Reporting Requirements .....	23
<b>XII.</b>	<b>Contract Closeout .....</b>	<b>23</b>
A.	Closeout Process.....	23
B.	Required Actions.....	23
<b>XIII.</b>	<b>Audit .....</b>	<b>24</b>
A.	Audit Rules.....	24
1.	<i>Applicable Law</i> .....	24
B.	General Rules for All Audits .....	25
C.	Rules for Non-profit and Governmental Entities (2 CFR 200.500, Subpart F) .....	25
D.	Rules for Commercial Organizations .....	25
E.	Audit Definitions .....	26
1.	<i>GAAS Audit</i> .....	26
2.	<i>GAGAS Audit</i> .....	26
3.	<i>SAA Audit</i> .....	26
4.	<i>Preparation for an Audit</i> .....	27
F.	Audit Resolution .....	27
1.	<i>General Process</i> .....	27
2.	<i>Audit Resolution Phases</i> .....	28
a)	Initial Determination.....	28
b)	Informal Resolution Period .....	29
c)	Final Determination .....	29
d)	Hearing Procedures .....	29
<b>XIV.</b>	<b>Debt Collection Procedures .....</b>	<b>30</b>
A.	Initial Determination.....	30
B.	Final Determination .....	31
C.	Appeal Process.....	31
D.	Repayment.....	31
E.	Waiver of Liability for Debt Collection.....	32
F.	Permanent Record .....	32
<b>XV.</b>	<b>Cost Allocation .....</b>	<b>32</b>
A.	Cost Allocation Principles .....	32
1.	<i>In General</i> .....	32
2.	<i>Elements of Cost and their Allocability</i> .....	32
a)	Direct Costs .....	32
b)	Indirect Costs .....	33
3.	<i>Treatment of Costs</i> .....	33
4.	<i>Measuring Benefit</i> .....	33
B.	Allocation Bases .....	34

1.	<i>In General</i> .....	34
2.	<i>Acceptable Allocation Bases</i> .....	34
3.	<i>Unacceptable Allocation Bases</i> .....	35
C.	Cost Pools.....	35
D.	Cost Allocation Plans.....	36
1.	<i>In General</i> .....	36
2.	<i>Contents of CAP</i> .....	37
XVI.	<b>Attachments</b> .....	<b>37</b>
	Close Out Instructions and Forms .....	37
	Close Out of Fixed Assets .....	37
	Profits Analysis Worksheet.....	37
	Request for Over Budget Form.....	37

## I. Introduction

This chapter is designed to provide operational financial guidance to the Subrecipients that contract with the San Diego Workforce Partnership (SDWP) and prescribes the uniform accounting procedures for the implementation of the provisions of federal job training programs. SDWP is the designated recipient and administrator of federal grants and a subrecipient of state grants and agreements under applicable federal job training acts for the City and County of San Diego. Therefore, contracts granted by SDWP are subject to the applicable funding acts and the applicable regulations. This includes but is not limited to the Workforce Innovation and Opportunity Act (WIOA) funds provided by the U.S. Department of Labor. The principles and procedures in this chapter shall be applied to contracts funded by other sources (other federal agencies, state, local or private), at the discretion of SDWP.

Each Subrecipient and its subcontractors are responsible for establishing and monitoring a sound financial management system to comply with the applicable financial, accounting and reporting requirements.

Office of Management and Budget (OMB) Uniform Guidance, [2 CFR Part 200](#), as well as the applicable Code of Federal Regulations (CFR) establish the cost principles for the various organization types and conform to “Generally Accepted Accounting Principles” (GAAP). GAAP are the accounting rules and procedures that have evolved through custom and common usage and are now recognized by authoritative bodies or conventions (such as the American Institute of Certified Public Accountants (AICPA) or Governmental Accounting Standards Board (GASB)). The central theme of GAAP is accountability and is intended to provide minimum standards, guidelines, and policy for financial accounting and reporting.

At a minimum, the Subrecipients’ financial management system must be sufficient to:

- Permit preparation of reports required by the federal agency and the statutes authorizing the grant.
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- Ensure that program salary costs claimed are supported by hours recorded on time sheets. Hours recorded on the time sheets must be based on actuals and not budget.

In addition, the Subrecipients’ financial management system must adhere to the following eight (8) standards:

1. Identification, in its accounts, of all Federal grants received and expended and the Federal programs under which they were received. Federal program and Federal grant identification must include, as applicable, the CFDA title and number, Federal grant identification number and year, name of the Federal agency and name of the pass-through entity, if any.
2. Accurate, current, and complete disclosure of the financial results of contracted activities must be made in accordance with the reporting requirements of the grant and reflect expenditures in accordance with the required cost classification categories and budgets.

3. Adequate accounting records must be maintained that provide information specific to the receipt and use of SDWP funds. Such records must contain information pertaining to grants, contractor payments, obligations, unobligated balances, assets, liabilities, outlays or expenditures, revenue, and program income.
4. Effective administrative and internal controls must be maintained for all grants and/or contract cash, real and personal property, and other grant assets. Subrecipients must safeguard all such property and must assure assets are used only for authorized purposes.
5. Actual expenditures or outlays must be compared with budgeted amounts for each grant or contract. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or practical. If unit cost data is specifically required by grant or contract agreement, estimates based on available documentation will be accepted.
6. Written procedures for determining the reasonableness, allowability, and allocability of costs in accordance with the specifications of applicable OMB cost principles, program regulations, and the terms of the grants and contracts will be followed.
7. Accounting records must be supported by source documentation such as cancelled checks, paid invoices, payroll records, time and attendance records, contract and contract grant documents, etc. Proper procedures and methods to meet audit standards, including storage and retention of source documentation to support accounting records, are required.

Written cash management procedures for minimizing the time elapsing between receipt and disbursement of funds must be adapted and followed. Procedures should be consistent with the requirements of applicable OMB Uniform Guidance, federal or state regulations, and grant provisions.

## II. Administrative and Internal Controls

Upon entering into a SDWP contract, Subrecipients accept the obligation to maintain an adequate internal control system through established operating policies and organizational structures. The system should clearly define the duties and responsibilities of staff, provide for supervision of staff and evaluation of performance and possess a “checks and balances” process to ensure overall financial integrity and safeguard of funds.

The internal control system should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

To achieve these objectives and to provide adequate internal control in the financial areas of recording and reporting, cash receipts, disbursements/expenditures, personnel, and inventory, the procedures below must be used, as applicable under the grant. Which procedures are used will depend on the number of employees involved and the size and complexity of the organization:

#### A. Management Controls

Subrecipients must ensure there are:

- Clear definitions of staff responsibilities through Operating Policies, Organizational Charts, and Job Descriptions. Separation of the approval, authorization and recording duties should be implemented so that no one staff member has complete authority or control over an entire financial transaction (i.e., hiring of employees-authorization and payroll processing-recording should be performed by two individuals);
- Strict measures for implementation of prescribed procedures in handling cash such as immediate deposit of cash received, all disbursements by checks, and restricted use of petty cash;
- Periodic examinations of cash balances and monthly reconciliation of bank statements with accounting records; and
- Matching of revenues with related expenses for the same period. Revenues are recorded when earned and expenses are recorded when incurred. Other revenues (program income/interest) should be recognized when received.

##### 1. Personnel Supervision

The Subrecipients shall provide for the supervision and evaluation of all duties and functions of its staff. All performance shall be subject to adequate and timely review under an internal monitoring program. At a minimum:

- Staff must have the qualifications appropriate for assigned duties and responsibilities;
- Staff must be aware of assigned responsibilities and job requirements and understand the nature and consequence of performance as identified in the job description and the organization's written personnel policy; and
- Staff performance must be monitored and evaluated on a periodic basis.

##### 2. Expenditure Control

Subrecipients are expected to implement effective procedures for expenditure control. The procedures must include controls that ensure:

- Goods and services that are paid for are actually received;
- The Subrecipients officials authorize quality, quantity, and prices and that such authorizations are consistent with the procurement requirements of the funding source (e.g. WIOA). See Operations Manual, Chapter 3 - Acquisition and Property Management, for detailed procedures for property acquisition; and
- Expenditures are kept within the established budget and cost categories to prevent over-expenditures.

3. Inventory Control

Subrecipients must safeguard all property purchased with funds provided by SDWP and annually inventory such property to prevent misuse, waste, deterioration, destruction, or misappropriation. (See Operations Manual, Chapter 3 - Acquisition and Property Management, for detailed property inventory procedures.)

### III. Accounting System

Subrecipients' accounting process must meet the following general criteria.

#### A. Separate Recording of Funds

Federal rules require separate accounting not only for contract funds received directly from SDWP, but also for program income, matching resources, and interest income. The accounting system must allow for the tracking of program income, potential Stand-In costs, and other funds that are allowable.

In addition, for all Subrecipients, except public entities, SDWP funds may not be commingled with those obtained from any other source, (as stated in SDWP's Contract General Provisions).

#### B. Accrual Reporting

Subrecipients are not required to establish an accrual accounting system, but they must determine accruals for reporting purposes and must provide information that satisfies the definition of accrued expenditures. Accrued expenditures are the charges incurred by the Subrecipients during a given period for goods, services, and/or other amounts owed, which may or may not have been paid.

There should be appropriate budgetary control. Budgetary comparisons should be included in the financial statements and schedules.

#### C. Accuracy, Updated, and Availability of Financial Records

Subrecipients' should have an accounting system that provides the ability to supply accurate, current, and complete information on all financial transactions. Financial records must be maintained and updated to record all transactions. Documentation should be readily available to support the validity of expenditures and to allow for periodic reporting as required by SDWP. These records must also show authorization thresholds, limits and approvals to ensure funds are expended within budgetary limits.

In addition, and in accordance with [2 CFR 200.336\(a\)](#), the Federal awarding agency, Inspector General, the Controller General of the United States, and the pass-through entity, or any of their authorized representatives, to have the right of access to any documents, papers, or other records of the non-Federal entity which are pertinent to the Federal award, in order to make audits, examinations, excerpts, and transcripts. The right also includes timely and reasonable access to the non-Federal entity's personnel for the purpose of interview and discussion related to such documents.



#### D. Financial Records

This section describes the financial records that will assist the Subrecipient in recording, summarizing, controlling, and reporting its financial operations. The organization may maintain any additional accounting records considered necessary.

##### 1. Cash Receipts Register/Journal

A cash receipt register (or journal) shall be maintained for the recording of funds for deposit in the bank in connection with the operation of programs under the contract.

##### 2. Cash Disbursement Register

A cash disbursement register shall be maintained for recording all checks issued for the withdrawal of funds from the bank account.

All disbursements shall be made by pre-numbered checks used in numerical sequence and must be supported by appropriate documentation, such as payrolls, invoices, contracts, travel vouchers, etc., which show the nature of each payment and the approval of an authorized organization official. The cash disbursement register should list all the pertinent details concerning the check (i.e., check number, date, payee, amount, etc.).

##### 3. General Ledger

A general ledger shall be maintained for recording all financial transactions relating to the operation of programs. All such transactions shall be classified to the appropriate accounts.

##### 4. General Journal

A general journal shall be used to document and record transactions in the general ledger that are not recorded from cash receipts and disbursements registers. Each journal entry shall contain a complete explanation of the transaction being recorded and references to related documents, if applicable. Journal entries shall be numbered consecutively, and the number recorded as part of the entry in the ledger. Only authorized personnel of the Subrecipients shall make journal entries.

##### 5. Payroll Records

Basic payroll records shall be maintained to accumulate the payroll data required by federal, state and local laws with respect to each employee, such as gross earnings, federal and state income tax withheld, FICA withholdings, etc. The records shall also include data relating to deduction for contributions to retirement plans, health insurance, etc. Time cards are required documentation and must reflect actual time spent by staff on the program.

#### E. Standards of Documentation

Adequate documentation in support of transactions should include all records (i.e., proposals in response to Request for Proposals (RFP), contracts, competitive bids for procurement of equipment, purchase orders) to establish legal obligations. Staff time and attendance records or logs of activity (i.e.,

trip reports), delivery receipts or invoices and approvals of salary increases, check requests, and other processing and payment documents, including vouchers and canceled checks must be maintained.

#### F. Reporting Requirements

With an adequate accounting system that meets all the above-mentioned criteria, Subrecipients must be able to prepare required reports for submission to SDWP.

##### 1. Invoice

An Invoice is a summary of the actual and accrued expenditures by contracted activities for the report month and contract year-to-date. The report compares budgeted expenditures to actual on a year-to-date basis (See section [Reporting Requirements](#) for more information on invoices). An invoice is also used when requesting a cash advance (See section [Cash Advances](#)).

##### 2. In-Kind/Cash Match Report

An In-Kind/Cash Match Report is submitted monthly with the Subrecipients invoice to identify program expenditures that are not paid by SDWP as part of the contract. Some Subrecipients may be required to provide matching funds or services as part of their contracts, and thus submit additional relevant reports (See section [Match and Leveraged Resources](#)).

##### 3. Program Income Report

A Program Income Report is submitted monthly or as required by the contract. This report identifies program income earned, how and when the program income is expended, and how the Subrecipients plan to expend any unspent program income.

### IV. Cost and Cost Categories

#### A. Costs in General

Federal law and regulations (i.e., WIOA) provide guidance on the subject of allowable job training activities. This guidance addresses the types of program activities that are allowable. All Subrecipients must be familiar with the Federal rules that govern what costs may be actually charged to a contract. Uniform Guidance was used in the development of this chapter, providing a foundation to build allowable cost guidelines. While the regulations do not address every possible cost, they are the groundwork for all grant financial management, and Subrecipients should rely on their guidance. An extensive familiarity with Uniform Guidance, coupled with knowledge of the provisions and certifications contained in the grant will help Subrecipients avoid possible audit discrepancies.

Because the Uniform Guidance is generic to federal grants, the following items are grouped together and are discussed as broad cost principles without the program-specific detail that only program regulations can provide. While these principles may not be specifically listed in WIOA Regulations, they are referenced within the regulations, are important, and should be considered in making decisions concerning the expenditure of funds.

- Costs incurred must be authorized or not prohibited under federal, state, or local laws or regulations. For example, entertainment and alcoholic beverages are prohibited from being charged to any federal grant program.

- Costs should conform to any limitations set forth in the regulations, or other governing limitations as to types or amounts of cost items. Cost limitations as a percentage of funds allocated are examples of this principle.
- Costs should be consistent with policies, regulations, and procedures that apply uniformly to other activities of the Subrecipients' organization.
- Unless specifically authorized, costs should not be included as a cost of, or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
- Subrecipients must adequately document all costs in a manner consistent with GAAP. Examples include: retaining evidence of competitive bidding for services or supplies and maintaining adequate time records for those employees who charge time against a federal grant. It is extremely important to document the rationale for incurring costs that are not immediately and easily determined to be necessary and reasonable for the program at the time the expenditure is made.
- Cost should be accorded consistent treatment. A cost may not be assigned to a Federal grant as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal grant as an indirect cost.

#### B. Costs Principles Specific to WIOA

The following costs principles are specific to WIOA and must be used in determining cost allowability for Subrecipients:

- Costs must be "necessary and reasonable for the proper and efficient administration" of the contracted program. For WIOA, the costs must be expended for the purposes referenced in WIOA regulations at [20 CFR 683.200](#). A cost is reasonable if, in its nature or amount, it does not exceed what a prudent person under the circumstances prevailing at the time the decision was made would incur. In addition, costs cannot be a general expense required to carry out the overall responsibilities of the Subrecipients, except as specifically provided for in the grant budget.
- Costs must be allocable. Subrecipients can charge costs to the contract if those costs are clearly identifiable as benefiting the grant-funded program. Costs charged to a specific job training and employment program should benefit only that specific job training program, not other programs or activities. If Subrecipients conduct other programs in addition to job training programs, allocation methods should be used to determine what share of costs should be charged to the job training program contract. A common issue often arises regarding salary and time charged to a contract for personnel compensation. Subrecipients can only allocate to the job-training contract the portion of time that a person spends supporting the implementation of allowable job training and employment activities for that program.
- Salaries and costs incurred by states, counties, cities, or school boards not directly related to the job training and employment are unallowable.
- Costs should be accorded consistent treatment through application of generally accepted accounting principles appropriate to the type of organization involved.
- Costs allocable to other cost objectives may not be shifted to a job training and employment cost objective. Likewise, job training and employment program cost categories must not be

charged costs that benefit other programs or cost categories. Costs must not result from a shift of costs allocable to other grants, programs, or cost categories to overcome fund deficiencies, to avoid restrictions imposed by law, or for other reasons. This prohibition does not apply to cost adjustments to correct errors or misclassifications as long as the costs ultimately charged to a cost objective are those properly allocable to that cost objective.

- Costs should be net of all applicable credits. The term “applicable credits” refers to those receipts, or reduction of expenditures, that offset or reduce expense items that are allocable to grants as direct or indirect costs. Typical examples of this are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds and adjustment of overpayments or erroneous charges.

To the extent that such credits accruing or received by the organization relate to allowable program costs, they are to be credited to the WIOA grant either as a cost reduction or cash refund, as appropriate.

The WIOA regulations specify that the definitions for direct and indirect costs contained in the Uniform Guidance Subpart E, applicable to the type of organization involved, be used to determine whether costs are direct or indirect.

### C. Cost Categories

There are two (2) cost categories, “administration” and “program” used by SDWP. The WIOA definition of Administration is found under 29 CFR 683.215.

#### 1. Administration

The costs of administration are the portion of necessary and reasonable allowable costs that are associated with the specific functions identified in the WIOA rules and regulations, and which are not related to the direct provision of WIOA services, including services to participants and employers. These costs can be both personnel and non-personnel and both direct and indirect. America’s Job Centers of California (AJCC) are permitted administrative costs not to exceed 5% of the contract budget.

#### 2. Program

Program costs are all necessary and reasonable allowable costs that are not specifically defined as administration. Costs of programs not being administered by AJCC’s are considered 100% program costs, 0% administration.

## V. Allowable Costs

### A. Allowable Cost Guidelines

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 herein, not be a general expense required to carry out the overall responsibilities of the organization receiving the funds.

## B. General Guidelines for Allowable Costs

To be allowable, costs must meet the following general criteria:

- Be necessary and reasonable for the proper and efficient administration of the program.
- Be allocable to the program, period, and cost category benefited.
- Be authorized and not prohibited by federal, state or local laws and regulations.
- Be consistent with policies, regulations, and procedures that uniformly apply to other activities of the organization of which the Subrecipients is a part.
- Be accorded consistent treatment through the application of Generally Accepted Accounting Principles (GAAP) appropriate to the circumstances.
- Not be allocable to, or included as, a cost of any other federally or state financed program in either the current period or a prior period.
- Be the net of all applicable credits such as discounts, rebates, and trade-in allowances.
- Be adequately documented.

## C. Allowable Cost References

The WIOA Sections 129 (c)(6), 134 (c) (2) and (3), 181 (d) and (e) and 188 (a)(3) and WIOA Rule, Sections 679.410, 683.200, 683.235 and 683.260 provide guidance regarding cost principles and allowable costs and refers to the Uniform Guidance for specific requirements.

Please note that although the Uniform Guidance refers to federal guidance regarding the approval process for purchase and construction of facilities, WIOA Regulations, Section 683.200, prohibits the purchase or construction of facilities. The regulations allow a few exceptions regarding renovation and repair (see details in Section 683.200); however, a written request for approval must be submitted to your Program Specialist prior to undertaking any renovations or repairs.

Expenditures of WIOA funds are allowable only for activities that are permitted by the WIOA law or the Regulations. Allowable activities for Adults and Dislocated Workers are described in WIOA Section 134 (c). Allowable and unallowable Youth activities are found in WIOA Section 129.

The Workforce Services Directive, [WSD16-16, Allowable Costs and Prior Written Approval](#) requires that all Subrecipients expending WIOA funds comply with federal allowable costs regulations and policies. It is each organization's responsibility to become familiar with and comply with the Uniform Guidance that are applicable to that organization, as well as the WIOA and the Final WIOA Regulations, to ensure that the programs and expenditures meet all requirements. Each Subrecipient must ensure that their staff and Subcontractors who are expending WIOA funds are also aware of and following the Uniform Guidance cost principles and WIOA allowable costs. Please read this Directive thoroughly and ensure that staff and Subcontractors are fully aware of these requirements.

All Subrecipients must follow the federal allowable cost principles that apply to their type of organization. The DOL Exceptions 2 CFR Part 2900 identify the federal principles for determining allowable costs which each Subrecipient must follow.

## VI. Negotiated Profit

Subrecipients are responsible for completing **Attachment - Profit Analysis Worksheet** describing the methodology of how the negotiated profit was attained. The worksheet is to be submitted with the Contract and stored with the Master Contract file maintained by the SDWP Finance department.

Profit is to be identified as a separate element of the price for each contract. Final profit will be determined during contract negotiations. To establish a fair and reasonable profit, the following factors may be considered:

- Subrecipient's effort measured by the complexity of the work to be performed and amount of subcontracting (if approved under the contract terms);
- Contract cost risk;
- Subrecipient's investment and independent development;
- The quality of the Operators' and Service Providers' record of past performance including cost control and past accomplishments; and
- Additional factors as needed.

For additional guidance and clarification on negotiated profit, reference [29 CFR 95.44\(c\)](#).

## VII. Match and Leveraged Resources

### A. Match Definition

Match is defined in Uniform Guidance as the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal Statute). All matching funds must be spent on allowable grant activities and in accordance with the cost principles. Subrecipients cannot claim a cost as both an allowable cost and as a match expenditure.

### B. Match Expenditures

There are two (2) types of match expenditures: cash match and in-kind contributions.

#### 1. Cash Match

Cash match reflects additional funds or services (allowable costs) provided and paid for by the Subrecipients 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 Subrecipient's accounting system.

#### 2. In-Kind Contributions

In-kind contributions are the products, space or services provided by a third-party organization, and not paid for by the Subrecipients, 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 [2 CFR 200.306](#). Examples of in-kind contributions would be personal services provided by volunteers or paid non-Subrecipient's 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 Subrecipients' 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 Subrecipients.

### 3. [Contract Payment Contingent on Meeting Contractual Match Requirement](#)

Subrecipients who do not meet the match required by statute or as a condition of the contract funding will not be paid for cost reimbursable to the contract for up to the shortfall amount of the required match. The shortfall amount will be determined based on the monthly E-invoice report.

### 4. [Leveraged Resources Definition](#)

Leveraged resources are not defined in regulation or any related administrative requirements. However, most Federal agencies use the term "leveraged resources," and for Employment and Training Administration (ETA) programs, the term has been defined to mean all resources used by the Subrecipients to support grant activity and outcomes, whether or not those resources meet the standards required for match. For ETA programs, leveraged resources mean 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.

### 5. [Leveraged Resources Expenditures](#)

All leveraged resources must be expended on costs that are allowable under the regulations 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 WIOA formula grant program, and the purchase of equipment that will further grant activity which is paid for by the organization using non-Federal resources.

### 6. [Leveraged Resources Tracking and Reporting](#)

SDWP is required to report all leveraged resources that support federally funded activities or outcome. The leveraged resources reporting requirement is also applicable to federally funded Subrecipients.

The value of the leveraged resources is the actual costs incurred as reflected in the Subrecipients' accounting system. Records must be maintained that support the leveraged resources within the Subrecipients' accounting system and be available for audit and review. Leveraged resources must be reported on the monthly E-invoice report.

## VIII. Stand-In Costs

### A. General Rules & Regulations

#### 1. Audit Resolution Activity

The use of Stand-In costs is an audit resolution activity. Stand-In costs are usable as substitutes for unallowable costs identified in an audit report. The information below explains how these Stand-In costs may arise, the rules of accounting and reporting for these costs and what do not qualify as Stand-In costs.

#### 2. In General

Stand-In costs result when a Subrecipients expends non-federal funds on WIOA programs. Thus, the following types of circumstances can yield Stand-In costs:

- Project costs financed with cash donated to the Subrecipients by third-parties.
- Project costs financed with Program Income, except federal source income (see section [Program Income](#)).

### B. Matching Costs (& Funds) Distinguished

Stand-In costs must be distinguished from Matching costs (and funds). Some contracts and funding sources may require specified amounts of matching funds to be provided by the Subrecipients as part of the contractual obligations. If the gathering and expenditure of these funds is a requirement of the contract, such funds cannot be used as Stand-In costs.

### C. In-Kind Costs (& Contributions) Distinguished

Stand-In costs must be distinguished from In-Kind costs (and contributions). Non-profit organizations often receive donations of goods, services and the use of property. They may receive such donations from commercial companies, individuals, governmental entities (like school districts) or even other non-profit organizations. The use of these donations of goods, services or use of property in a program cannot be used as Stand-In costs.

### D. Stand-In Cost Criteria

Stand-In costs must meet the following criteria for WIOA:

- Must be allowable costs that were actually incurred by the Subrecipients and which were paid by a non-federal source.
- Must have been reported as uncharged program costs. This means that the amount of the expense must be reported in a Stand-In Cost Report attached to the Subrecipients' monthly financial reports to SDWP.
- Must have been accounted for in the Subrecipients' financial system. The unbilled expense must be recorded and documented in the Subrecipients' regular accounting records. It cannot be presented as a separate consideration outside the entity's accounting system.
- Must be included within the scope of the Subrecipient's audit, not necessarily tested but potentially subject to testing. The costs must be recorded and included in the Subrecipient's financial statements that are presented to their auditors. Failure to include unbilled costs disqualifies the costs for Stand-In consideration.



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

#### E. Examples of Stand-In Cost

Subrecipients receive donated cash from a third-party and uses this cash on a WIOA contract is an example of Stand-In costs. The Subrecipients have a record of the donation and the amount of the expenditure for the WIOA program which can be audited at the source by SDWP, and which is reported on the Subrecipient's financial statement.

A school district has supplied SDWP with documentation from the federal government showing that they have an approved indirect rate of 10%. The contract with SDWP limits the Subrecipients to an 8% indirect rate. The additional 2% indirect rate expenses that the Subrecipients incurred (as documented by their indirect rate letter) can be classified as a Stand-In cost and reported according to the cost categories to which the 8% indirect rate has been allocated.

As noted above, Matching Costs and non-cash In-Kind Costs are not Stand-In Costs.

#### F. Reporting

In all cases, the Subrecipients are required to document the Stand-In costs and those sources on a monthly basis using a Stand-In Cost Report. The report should show the type of Stand-In cost (i.e., Personnel, Fringe Benefits, Supplies, etc.) and the cost category for the Stand-In cost (Administration or Programmatic). In addition, the sources and type of funds that paid for the unbilled costs should be shown.

### IX. Program Income

#### A. General Rules & Regulations

Program income is defined and addressed in the WIOA regulations at [20 CFR 683.200](#), [2 CFR 200.80](#) and EDD Directive Program Income, [WSD15-25, WIOA Program Income](#). See also [2 CFR 200.307](#). Each entity receiving federally funded financial assistance (i.e., WIOA) is required to keep records sufficient to determine the amount of program income received and the purposes for which such income is expended.

Although federal programs allow program income to be earned and used for federal program purposes, earned program income should be incidental to providing program services. All SDWP-funded Subrecipients must comply with the Program Income Policy listed in this section.

#### B. Reporting

Each Subrecipient is responsible for reporting all program income earned and expended. If program income is earned, the Subrecipient must submit a monthly report that details the balance of the program income and describes the planned use of the program income. Subrecipients must spend program income on participant services rather than capacity building activities. Additionally, as the

Subrecipient expends the program income, a monthly report is required to be submitted, detailing the amount of program income expended and for what purpose.

Subrecipients who do not submit the required program income reports in a correct or timely manner shall be subject to a delay in the payment of their invoices.

### C. Accounting

Each entity receiving funds from SDWP must keep records sufficient to determine the amount of program income received and the purposes for which such income is expended. Subrecipients must track program income expenditures on a first-in, first-out basis. Each Subrecipient must establish a separate financial account to track program income earned and expended. The additional method, described in [2 CFR 200.307\(e\)\(2\)](#) must be used for the recording and reporting of program income.

### D. Excessive Program Income Balances

Subrecipients should expend all program income for approved program activities before requesting additional cash payments from SDWP. If a Subrecipient's program income balance is over \$10,000 or over 2.0% of the Subrecipient's prior or current year SDWP-funded contracts, whichever is larger, then one or more of the following actions shall be taken by SDWP:

- Set up a fiscal monitoring visit to review Subrecipient's bank statements and financial records to determine that the Subrecipients have the funds.
- Formal review of the monthly reports with agreed-upon deadlines for the planned expenditures.
- Require Subrecipients to demonstrate that their organization is a going-concern (i.e., solvent).
- Recommend that Subrecipients be placed on "Special Status."

### E. Types and Examples of Program Income

#### 1. Fees

Income from fees for services performed. The net fee is program income.

#### 2. Conferences

An example of income from conferences would be a conference on a case management that is attended by both Subrecipients and others. All net conference fees collected are program income.

#### 3. Rental or User Fees

Income from the use or rental of real or personal property acquired with contract funds. An example would be when Subrecipients purchase a copier with contract funds and shares the copier with a program that is not funded by the contract. Net revenues from the use of the copier by the non-federal program are program income.

4. Sale of Product

An example of income from the sale of commodities fabricated under a contract would be enrolling participants in a culinary arts training program. Meals prepared by the trainees are sold to the public. Net revenue generated from the sale of meals is program income.

5. Revenues in Excess of Costs

Revenues in excess of costs are program income for private non-profit service providers under a performance-based contract. For example, a non-profit service provider performs training and job placement services under a fixed unit price agreement. Subrecipients must track and account for the total cost of providing these services to determine whether gross revenues earned through benchmark payments exceeds expenditures. If revenues exceed expenditures, the difference is program income.

6. Interest Income

Interest income that is earned on advances of contract funds is program income.

F. Items that are NOT Program Income

[2 CFR 200.80](#) and [200.307](#), WIOA Section 194 (7) and (13) and Directive WSD15-25 list the types of revenues and adjustments to expenditures that are NOT included as program income. Items that are NOT program income include:

1. Credits

Applicable credits such as rebates, credits, discounts, refunds or interest earned on any of them. These amounts are credited as a reduction to costs or returned to the U.S. Department of Labor (DOL).

2. Royalties and License Fees

Royalties and license fees for copyrighted material, patents, patent applications, trademarks, and inventions developed by a recipient or Subrecipient.

3. Sale of Property

Proceeds from the sale of real property, equipment, supplies, and intangible property are governed by the property management standards in the applicable program regulations.

These standards incorporate the requirements of the Uniform Guidance. Proceeds from the sale of property are not program income, but are often required to be returned to the granting agency or to DOL. Additional guidance on acquiring and disposing of real property is covered in the *Operations Manual - Chapter 3- Acquisition and Property Management*.

4. For-profit Companies

Profits earned by commercial for-profit organizations in providing federally funded activities are not considered program income. Therefore, these entities should not file the Program Income Reports that are described herein.

5. Donations/Contributions

Donations and contributions are voluntarily given by a non-federal source, and their receipt does not require the performance of a specific service or activity. Because these funds are not generated by or resulting from the use of federal funds, they are not program income.

6. Non-federal Source Funds

Funds received for providing non-federal services that are not generated by the use of federal funds.

7. Matching Funds

Additional matching funds provided to meet any matching requirement of a federally funded program are not program income.

8. Interest Income

Interest income earned on advances is not Program Income. This interest must be returned to SDWP at least quarterly in order for SDWP to forward it to the DOL.

G. General Use of Program Income

Program income funds may be retained by the Subrecipients to underwrite additional training or training-related services pursuant to the program that generated them, consistent with the purposes of the specific program.

Subrecipients must comply with SDWP's accounting and record keeping requirements. These stipulations include reporting of the program income and obtaining SDWP approval for the planned use of the program income. Program income funds must be returned to SDWP within 30 days of a contract's end unless the Subrecipient meets all requirements for retention.

1. Cost Limitations

There are no cost limitations for use of program income, meaning that program income earned can be used for either administrative or programmatic activities.

2. Return of Program Income

If program income is used in an unallowable way, the Operators and Service Providers are liable to SDWP for the repayment of these funds from non-Federal sources.

3. Usage Restriction

Program income may be used for any purpose allowable under the contract by which it was earned.

4. Tracking

Subrecipients must track program income expenditures on a first-in, first-out basis.

5. Loans Prohibited

Program income may not be loaned.

6. Disallowed Costs

Program income may not be spent to cover disallowed costs.

7. Equipment Purchases

Any equipment purchased with program income is subject to SDWP's Property Management Procedures as described in SDWP's Operations Manual, Chapter 3 - Acquisition and Property Management.

## X. Cash Advances

### A. Financial Need

Cash advances shall be available only when the Subrecipients clearly demonstrate a financial need for a cash advance. Subrecipients that do not have sufficient funds from other sources will be considered eligible for a cash advance.

### B. Procedure

Subrecipients who feel they meet the financial needs requirement shall submit a written request for a cash advance to their contract point of contact at SDWP, clearly stating the need and the financial status of the requesting organization. Sufficient documentation of the financial needs of the Subrecipients is required with the written request. SDWP may request additional documentation. Final approval of the request is at the discretion of the Finance Management of SDWP.

### C. Limitation

If the request is approved, the amount advanced will cover the estimated cash needs of the Subrecipients for a two-week period not to exceed 10% of the contract amount.

### D. Repayment Terms

The initial two-week period's actual expenditures will be applied to the cash advance. If the initial two-week period's expenditures are less than the cash advance, subsequent expenditures will be applied until the cash advance is repaid. Thereafter, the Subrecipients will be reimbursed for actual cash disbursements.

### E. Interest Earned

Cash advances are intended to be used for immediate cash needs; however, any cash received from SDWP shall be placed in an interest-bearing account until used. Any interest earnings are to be recorded as program income and reported and expended.

## XI. Reporting Requirements

### A. Monthly Invoices

Subrecipients must submit a monthly E-invoice package for each contract and for each funding source within a contract, if multiple funding sources exist. Subrecipients must report all expenses and including their Subcontractors expenses on an accrual basis each month. The E-invoice package must be generated from the Subrecipient's electronic accounting system. In the event a Subrecipient does not incur any expenses for the invoice period, a zero invoice for each funding source must be submitted. The E-invoice package must contain the following items:

- E-invoice
- Expenditure Report
- In-Kind/Cash Match Report
- Contract to Date Revenue and Expenditure Report
- Supporting Documentation Report
- Request for Over-Budget form, if necessary

### B. Limitations and Due Dates

Only one (1) invoice may be submitted per month for each contract or funding source within a contract, if multiple funding sources exist. **All invoices are due by the 6th business day of the month** following the month in which the expenses were incurred, unless otherwise stipulated in the contract.

### C. Program Income and In-kind/Stand-in Reports

Subrecipients are also required to submit an In-Kind/Stand-In reports on a monthly basis with the E-invoice package. These forms are provided to the Subrecipients in electronic form at the time of contract execution.

### D. Equipment Purchases

As stated in more detail in the Operations Manual, Chapter 3 - Acquisition and Property Management, the threshold at which tagging of a fixed asset (a non-expendable property) and the value of property that requires prior written approval from SDWP is \$1,000. Copies of invoices for all purchased equipment with contracted funds (value of \$1,000 or more) must be submitted with the monthly E-invoice package. Requests to purchase property with a per unit acquisition cost of \$5,000 or more require prior written approval from the State.

### E. Correct and Complete Documentation

E-invoice packages submitted without all required detail and reports will be returned to the Subrecipients and will not be processed until SDWP receives all correct and complete documentation. All documentation must contain original signatures of authorized Subrecipient's staff, unless SDWP has pre-approved the use of electronic signatures. A penalty of 10% of the invoice(s) or \$1,000, whichever is lower, will be applied to E-invoice package(s) that are submitted after the deadline as stated in section [Limitations and Due Dates](#). Erroneous E-invoice packages received before the deadline will be returned to the Subrecipients with the opportunity to resubmit up until the deadline without incurring a penalty. The penalty is in the form of lowering the amount of costs eligible for reimbursement and is

designed to encourage timely and accurate reporting. Exceptions may be made on a case-by-case basis.

#### F. Additional Reporting Requirements

Specific programs have additional reporting requirements. In addition to those identified below, special provisions may be included in the SDWP General Provisions that are included with each new contract.

## XII. Contract Closeout

### A. Closeout Process

The contract closeout is a process used to determine that all the necessary administrative actions have been completed under the contract; and that any necessary adjustments in the financial activities, including refunds, have been made.

### B. Required Actions

Following completion or termination of a contract, the Subrecipients must take the following financial actions:

- Prepare and submit the final invoice including all final allowable contract expenses, by July 31 for annual contracts based on the fiscal year cycle.
- Complete and sign **Attachment – Close Out Instructions and Forms** and **Attachment – Close Out of Fixed Assets**. The closeout package includes the following forms:
  - Subrecipient’s Checklist of Closeout Documents
  - Subrecipient’s Letter of Closeout Documents Release, Assignment of Refunds, Rebates, and Credits, Inventory Certificate, and Tax Certification
  - Close Out of Fixed Assets
  - Closeout Status of Cash
  - In-Kind/Stand-In Matching Funds Report
- The closeout package is due on or before July 31 for annual contracts based on the fiscal year cycle. A penalty of 10% of the final invoice or \$1,000, whichever is lower, will be applied to close-outs that are submitted with errors after the above mentioned due date. Erroneous close-outs received before this time will be returned to the Subrecipients, with the opportunity to resubmit up until the deadline without incurring a penalty. This penalty is in the form of lowering the amount of costs eligible for reimbursement, and is designed to encourage timely accurate reporting. Exceptions will be made on a case-by case-basis. Closeout reporting must be done by individual funding stream.
- Further instructions are included in the contract closeout package to address the following:
  - Fidelity bonds
  - Workers compensation
  - Refunds due to SDWP
  - Unclaimed wages
  - Other refunds and cancelled checks
  - Invoice and Revenue & Expense report
  - Subrecipient closeouts

- Return to SDWP any cash received in excess of the amount needed to pay non-cancelable obligations and accrued expenses.
- Return to SDWP all interest earned on contract funds, which is unspent at the contract's end.
- Return to SDWP other program income generated, unless these funds were mutually agreed upon to further the objectives of the program. See the procedures specified under section [Program Income](#).
- Return to SDWP all equipment/property purchased with contract funds, unless it is agreed that the equipment/property will continue to be used in the program for which it was acquired.
- The Subrecipients shall also request of all its subcontractors, or others performing program services to submit their final billings. This action is essential in order to properly reflect total contract costs at the submission of the final reports. SDWP shall not be responsible for outstanding claims or liabilities not indicated in the contract closeout documents.

### XIII. Audit

#### A. Audit Rules

##### 1. Applicable Law

The Single Audit Act (SAA), as amended, sets audit requirements for all recipients of Federal funds. SDWP grants are subject to the audit rules in the Uniform Guidance [2 CFR Part 200, Subpart F](#) and Workforce Investment Act (WIA) State Directive [WIAD05-16, Audit Requirements](#).

Each subcontract or cooperative agreement of the Subrecipients shall contain the following requirement:

- As a condition of receiving WIOA funds, the independent auditor or monitor of SDWP, and the State EDD auditors, investigators, monitors and their representatives, shall at all times during the period that the grant is in force and for a period of five years thereafter, have access to all related records and financial statements and to individuals with knowledge of the records and financial statements as may be necessary to ensure compliance with the WIOA statute, regulations and directives.
- All entities that are required to follow Uniform Guidance and that spend \$750,000 or more in combined federal financial assistance in a year are required to have an audit of their financial activities, per [2 CFR 200.501\(a\)](#).
- Commercial (for-profit) organizations that receive federal funds must have either an organization-wide audit conducted in accordance with Uniform Guidance or a program-specific financial and compliance audit.
- SDWP will consider additional compliance monitoring or other actions for organizations with less than \$750,000 per year in federal grants. Organizations may not charge the cost of an audit to federal funds if the organization expended less than \$750,000 in total federal grants (all sources).

All Subrecipients are required to comply with [2 CFR 200.331\(d\)](#), including but not limited to:

- Monitor the subcontractor's federal grants through site visits, limited scope audits, or other means;



- Review audits of subcontractors to determine if prompt and appropriate corrective action has been taken with respect to audit findings; and
- Require each of its Subrecipients of federal grants to permit, as a condition of receiving federal grants, the independent auditor of the pass-through entity to have such access to the subcontractor's records and financial statements, as may be necessary.

#### B. General Rules for All Audits

- The audits must be conducted annually.
- The audits are to be completed within nine (9) months after the end of the entity's fiscal year.
- The audits must be submitted within 30 days after completion. The audits are to be submitted to SDWP as the organization that supplied the federal assistance.

#### C. Rules for Non-profit and Governmental Entities (2 CFR 200.500, Subpart F)

The items noted here are the highlights of that section as it applies to SDWP contracts. Any organization that requires an audit should refer to the full text of the Uniform Guidance.

Each non-profit organization that receives \$750,000 or more a year in federal grants must have an organization-wide audit. However, if the grant is with regard to only one (1) program, the non-profit entity has the option of having an audit made of just the one (1) program (called a "program-specific" audit).

Whether an organization-wide or program-specific audit is chosen, it must be a financial and compliance audit in accordance with Generally Accepted Government Accounting Standards (GAGAS).

An auditor that prepares the indirect cost proposal or cost allocation plan for an organization, when indirect costs exceeded \$1 million in the prior year, may not perform the organization's audit required by [2 CFR 200.509\(b\)](#). The revised Uniform Guidance contains additional requirements and we encourage organizations to carefully read and comply with these regulations.

#### D. Rules for Commercial Organizations

WIOA Regulations section 683.210 (a)(2) provides the federal guidelines on audits of commercial entities.

Subrecipients that receive federal grants (i.e., contracts to perform WIOA services) are to be distinguished from "contractors" who supply goods or services in support of WIOA programs.

**Contractors are not required to have audits.**

Each commercial entity that receives \$750,000 or more a year in federal grants must have an audit.

The federal regulations provide an option as to the scope of the audit. The commercial organization may choose to have either a program-specific audit or an organization-wide audit.

If a program-specific audit is chosen, it must consist of an independent financial and compliance audit conducted and prepared in accordance with GAGAS.

If an organization-wide audit is chosen, it must include financial and compliance coverage of the WIOA program within its scope, in accordance with Generally Accepted Auditing Standards (GAAS).

Any commercial organization that receives less than \$750,000 in federal financial assistance in a fiscal year has no federal audit requirement.

## E. Audit Definitions

Auditing firms perform various types of audits. Subrecipients must ensure that the audit it obtains meets the standards required for the organization and must specify to the auditing firm the type of audit required.

### 1. GAAS Audit

The most general or “regular audit” is an audit that meets GAAS. An audit that meets GAAS standards will consist of only one component, a Report on Financial Statements.

### 2. GAGAS Audit

In addition to the above report, an audit that meets GAGAS will have two (2) additional components:

- A report on the entity's internal control structure; and
- A report on the entity's compliance with laws and regulations.

### 3. SAA Audit

An audit that meets Single Audit Act (SAA) Standards will have five (5) more components:

- A report on the Federal Financial Assistance (FFA) Statement;
- A report on Internal Controls over FFA;
- A report on FFA General Compliance;
- A report on FFA Major Compliance; and
- A report on FFA Non-Major Compliance.

An audit that meets SAA standards will have eight (8) parts, or all of the elements listed above.

The cost of the audit qualifies as an allowable cost under WIOA guidelines. However, this cost must be included in the original contract and budget. It is not in addition to the contract amount. After the auditor is chosen, the flow of normal audit activities may be summarized as follows:

- Entrance Conference to discuss audit process.
- Field Work at the Subrecipients' site(s) by auditor's staff.
- Discussion of Findings between auditor and Subrecipients.
- Draft Audit Report prepared by auditor and reviewed by Subrecipients.
- Exit Conference to discuss audit report.

- Final Report prepared by auditor and distributed to the Subrecipients.

#### 4. Preparation for an Audit

The following records and documents should be available when the auditors begin their work:

- A statement of the management policies, principles, and standards for achieving financial control.
- An organization chart which shows the relationship between financial and program management in sufficient detail to determine segregation of responsibilities.
- A description of the internal controls over expenditures and recording of transactions.
- Supporting documentation for the expenditure of all federal funds.
- Personnel records of the principal members of the financial management organization indicating specific qualifications and responsibilities.
- Evidence that individuals responsible for cash and other assets are adequately bonded.
- Planning documents and budgets used for the management of funds and financial information.
- Copies of prior audits, including internal audits.
- Accounting journals and other financial records, including the following:
  - Bank statements and reconciliations
  - Payroll records
  - Inventories of equipment
  - Invoices and purchases orders
  - Leases

## F. Audit Resolution

### 1. General Process

SDWP is responsible for enforcing the above audit requirements on its federally funded contracts (i.e., WIOA).

SDWP has adopted the audit resolution procedures as outlined in Workforce Innovation Act (WIA) State Directive [WIAD05-17, Audit Resolution](#).

As noted above, the audit reports of Subrecipients are to be completed within nine (9) months after the end of the Subrecipient's fiscal year and are to be delivered to SDWP within thirty-(30) days after the completion of the audit.

Following the receipt of the audit reports, SDWP has six (6) months in which to resolve all audit findings that impact its contracts.

Audit findings that would require resolution include: disallowed or questioned costs and administrative (non-monetary) findings.

The audit resolution process is expected to accomplish the following:

- Determine the need for and ensure the implementation of corrective action(s) for all findings that impact SDWP contract(s).
- 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 program 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 Subrecipients with its appeal rights.

The audit resolution process, outlined below, contains three (3) distinct phases:

- Initial Determination
- Informal Resolution Period
- Final Determination

## 2. Audit Resolution Phases

### a) *Initial Determination*

The Initial Determination is a preliminary decision on whether to disallow questioned costs and how to resolve any administrative (non-monetary) findings. It offers the auditee (Subrecipients) an opportunity for informal resolution.

The Initial Determination is sent directly to the Subrecipients after an appropriate time interval that provides the auditee with time to comment on the audit report that was received from the independent auditors.

#### Guidance for Questioned Costs:

- Costs will be disallowed if the basis is a clear violation of laws and regulations. As an example, costs that violate the federal and state guidelines for Allowable Costs will be disallowed.
- Costs can also be disallowed based on a violation of federal grant terms and conditions.
- Costs can be disallowed if they are not supported by adequate documentation. Such back-up records as attendance records, invoices, bills and canceled checks are required.
- Costs can be disallowed if they are a violation of the program contract. However, there is more flexibility in this area, as long as the expense does not violate federal or state rules.

#### Guidance for Administrative Findings:

- The proper resolution for an administrative finding is corrective action. If there are multiple administrative findings, the corrective actions should be prioritized by SDWP and the Subrecipients.
- The deficiencies and the corrective actions need to be specified.
- The dates for completion of the corrective actions need to be set.

- The availability of technical assistance needs to be specified, discussed with the Subrecipients, and followed up.
- Any sanctions and remedial actions that may be taken against the Subrecipients if the deficiency is not corrected should be spelled out.

*b) Informal Resolution Period*

During this phase, the Subrecipients will get another opportunity to present new evidence, documentation, or explanation to change the decision of SDWP.

The Subrecipients may agree to corrective action before SDWP initiates sanctions or other remedial actions. The Subrecipients may admit to the disallowance of a questioned cost and make repayment or negotiate terms of repayment.

*c) Final Determination*

The conclusion to the audit resolution process is the Final Determination. SDWP should send this report to the auditee (Subrecipients) within six (6) months from the receipt of the audit report.

The Final Determination report should contain the following:

- Reference to the Initial Determination;
- Statement of SDWP's final decision to disallow costs, listing each disallowed cost and noting the reasons for each disallowance;
- Identification of questioned costs in the audit report that have been allowed by SDWP and the basis for the allowance of the costs;
- A demand for repayment of disallowed costs;
- Description of debt collection actions if no repayment procedures can be agreed upon;
- Restatement of the status of Administrative Findings; and
- Information of rights to hearing and appeal.

*d) Hearing Procedures*

If the audit findings cannot be resolved informally and a written Final Determination has been issued to demand the repayment of the disallowed costs, the auditee has the right to request a hearing. The hearing allows both parties the right to present either written or oral testimony, call and question witnesses in support of their position, present oral and written arguments, examine records and documents relevant to the issues, including the right to be represented.

The granting agency of the funds in question (EDD, DOL, HHSA, etc.) must reserve the right to overturn a local hearing officer's decision when it determines that noncompliance with the applicable act or its regulations still exist. The timelines and other procedures related to the hearing will follow the guidelines provided in the [WIAD05-17, Audit Resolution](#) as follows:

- The hearing shall be recorded mechanically or by court reporter. The auditee has thirty (30) calendar days after the Final Determination is issued to submit a written request for a hearing. At least ten (10) calendar days before the hearing, written notice of the date

- and site of the hearing must be provided to the auditee. The 10-day notice may be shortened with written consent of both parties. The auditee may withdraw the hearing request, in writing.
- The hearing officer must issue a decision within sixty (60) days of the request filing date.
  - An auditee has ten (10) days from the receipt of the adverse decision to file an appeal of the local hearing officer's decision to the State Review Panel. If a local hearing is not held or the decision is not rendered timely, the auditee has fifteen (15) days from the date on which the hearing should have been held or the decision should have been issued to file an appeal with the State Review Panel.
  - If the auditee appeals the decision of SDWP's hearing officer to the State, SDWP will send the Compliance Review Office (CRO) the complete audit for review by the State Panel. Within thirty (30) days of receipt by CRO of the auditee's written appeal, the State Review Panel will be convened to review all evidence and issue a decision based on the evidence without consideration of any imposed sanctions.

There is no administrative appeal beyond this level.

The SDWP shall ensure correction of any unresolved administrative findings. The SDWP should determine the status of the unresolved administrative findings through its monitoring process and determine that appropriate corrective action has been taken. A copy of the appropriate corrective action must be filed with the audit report.

#### XIV. Debt Collection Procedures

In cases where it is determined that repayment of misspent funds is required from a SDWP funded contract, SDWP is responsible for debt collection. Funds collected in settlement of all debts resulting from fraud, malfeasance, misapplication of funds or other serious violations will be returned to EDD's CRO immediately upon receipt.

When debt is not a result of fraud, malfeasance, misapplication of funds or serious violations or illegal acts, the cash repayment of the misapplication is a credit to the title and year to which it was originally charged. Any cash payments received after the fund availability period will be returned to the CRO.

The actions described below will be taken to collect the debt established as a result of an audit investigation, a monitoring finding, or other means.

##### A. Initial Determination

At the conclusion of the audit investigation or monitoring in which there is a finding to disallow a questioned cost, a notice of the initial determination will be issued to the Subrecipients regarding the amount and nature of the disallowed cost. The initial determination will provide thirty (30) calendar days for the Subrecipients to seek an informal resolution.

## B. Final Determination

If there is no satisfactory resolution as a result of the initial determination it will be concluded that funds have been misappropriated and a Final Determination will be issued, formally notifying the Subrecipients that a debt has been established. The notification will include the appeal rights of the Subrecipients, the date by which the debt must be repaid, the date that it will be considered delinquent, whether or not interest will be charged and at what rate, and possible sanctions if the debt is not repaid. This might include, but would not be limited to, debarment, in which the Subrecipient is prohibited from receiving future contracts.

At the point a Final Determination is issued, the debt is recorded in the outstanding debt account in SDWP's accounts receivable system.

## C. Appeal Process

Subrecipients may file a written appeal with SDWP within ten (10) workdays of receipt of the Final Determination. The Appeal must include a clear and concise statement of the facts and reason for the appeal. A request received after ten (10) workdays will not be honored. A copy of the Final Determination letter should accompany the appeal letter and should state specifically those sections of the Final Determination being appealed.

In the event that no appeal is requested within the required time, the debt established in the Final Determination, becomes a civil claim of the State of California. However, in the event that an appeal is heard, debt collection actions will be suspended, and no interest or other sanctions will be charged or imposed until completion of the appeal process. In the event that the appeal request is untimely, interest will be charged retroactively, as though an appeal had never been requested.

## D. Repayment

If no appeal has been filed contesting the debt owed and full repayment in cash from a non-federal source has not been received within thirty (30) calendar days of the date on which the debt was established as final, the debt is deemed delinquent. On the date that debt becomes delinquent, SDWP will forward three debt collection letters at no less than thirty (30) calendar day intervals. The first letter will advise the Subrecipients that payment has not been received and will reiterate the information contained in the Final Determination.

SDWP will forward the second debt collection letter when payment has not been received within the thirty (30) calendar days after the due date of the first letter. This letter will advise the Subrecipients that the debt is delinquent and that payment should be sent immediately.

If payment is not received and no repayment plan has been approved in the sixty (60) day period subsequent to the date the debt became delinquent, SDWP will forward the third debt collection letter. The third letter will advise the Subrecipients on which debt collection action has been selected and the legal proceedings that have been initiated. Legal proceedings may include collection agency, small claims court filing, etc.

An installment repayment plan may be negotiated if the debtor is unable to make repayment in full. The length of the repayment agreement (short duration, from 3 to 12 months, with a maximum of 36 months) will be negotiated based on the size of the debt and the debtor's ability to pay. All installment repayment agreements must be approved by CRO.

#### E. Waiver of Liability for Debt Collection

If debtor is unable to restate in full and no other arrangement is approved, SDWP may request to be relieved of liability for debt. SDWP will submit a written request that EDD seek the Department of Labor (DOL) agreement to forego collection action (pursuant to the provisions of [20 CFR 683.740](#)) to CRO. Requests must include demonstrations of facts showing compliance with WIOA section 184(d) and [20 CFR 683.740](#) and appropriate documentation; such as, proof that all three (3) debt collection letters were sent, litigation was conducted, and withholding of funds was attempted. Without the prior approval of both CRO and DOL, SDWP will remain liable for repayment of the entire debt.

#### F. Permanent Record

SDWP shall maintain a permanent record of all Debt Collection cases and their status. Permanent records will include, but not limited to, documentation of actions taken with respect to debt collection and why such actions were taken.

These records shall be maintained by SDWP Finance Department and securely stored with all other contract documents. The status of each Debt Collection case shall be updated as needed and reported to outside parties when appropriate.

## XV. Cost Allocation

### A. Cost Allocation Principles

#### 1. In General

To be chargeable to a contract funded by SDWP, a cost must benefit the contracted program in general and its cost objectives in particular.

Cost allocation is necessary where a cost directly benefits more than one cost objective, and where a cost indirectly benefits any or all cost objectives (i.e., administrative costs incurred to support the overall operation of the organization).

The method of cost allocation for federally funded programs is prescribed by regulations and by administrative procedures (see [2 CFR 200.405](#)).

#### 2. Elements of Cost and their Allocability

##### a) Direct Costs

Direct costs are costs that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts or to other programs against which costs are finally lodged (see [2 CFR 200.413](#)).



Direct costs may also be charged to cost objectives used for the accumulation of costs (a cost pool) which are subsequently allocated to final cost objectives.

- *Assignable Direct Costs* - Direct costs that can be identified with and assigned to a final cost objective and cost category. Assignable direct costs are charged directly to final cost objectives and do not require any further allocation.
- *Shared Direct Costs* - Direct costs that cannot be readily assigned to a final cost objective. These costs are directly charged to an intermediate cost objective or cost pool and subsequently allocated to a final cost objective. Shared direct costs are incurred for a common or joint purpose benefiting more than one cost objective.

#### b) *Indirect Costs*

Indirect costs are those, incurred for a common or joint purpose benefiting more than one (1) cost objective, and not readily assignable to the cost objective specifically benefited without effort disproportionate to the results achieved (see [2 CFR 200.414](#)).

These costs may originate in the recipient's own organization or in other departments that supply goods, services and facilities to the program.

Most often, indirect costs are administrative costs that are incurred to support the overall operation of the organization. Typical examples may include the cost of operating and maintaining facilities, and general administration.

Indirect costs are charged to all programs using an approved indirect cost plan or rate.

### 3. *Treatment of Costs*

- A *cost objective* is an activity for which separate cost measurement is performed.
- *Final cost objectives* are the cost categories of the funding source of the contract. For example, the final cost objectives of a contract funded by WIOA would be administration and program.
- An *intermediate cost objective* can be a cost pool, center, or other area established for the accumulation of costs, such as organizational unit, functions, objects, or items of expense.

### 4. *Measuring Benefit*

Measuring benefit is the critical and central task to be performed in allocating costs. Costs are allocable to a particular cost objective to the extent of benefits received by that cost category.

For a direct cost that is assignable to a particular cost objective, it is clear that the same cost objective receives the full benefit from the purchases or activities that make up that cost. Measuring benefit in this case involves no more than identifying the full cost of the activity and assigning it to the correct cost objective.

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

Sometimes this measurement can be done simply, and the portion of the cost assigned. For instance, the intake staff of a Subrecipient with more than one funding source in its contract could allocate its hours based upon the actual record of time spent for each program.

When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the cost for later distribution. In the intake example just above, instead of recording the time spent by program, the organization could use the proportionate number of persons determined eligible by program as the basis for measuring the benefit to each program.

When a particular program does not use or derives no benefit from the cost of an activity or purchase, then the associated cost cannot be charged to that program.

## B. Allocation Bases

### 1. In General

The allocation base is the approximate measure of benefit to a cost objective. When costs are pooled, the allocation base is used to allocate 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. Acceptable methods for distributing pooled costs will vary by type of organization, by functional units or levels within an organization, by types of cost to be allocated, and by cost category.

The basis used to allocate a particular type of cost should be used consistently over time and be described in the Cost Allocation Plan.

### 2. Acceptable Allocation Bases

An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit, and it results in an equitable distribution of the cost of services rendered or goods provided. General guidelines for an allocation base are listed below.

- *Minimal Distortion*: The base should distribute costs in a fair and equitable manner without distorting results. This requires that the base be as causally related as possible to the types of costs being allocated.
- *General Acceptability*: The base should be generally accepted and in conformance with generally accepted accounting principles. For example, it should be consistently applied over time. The base should be drawn from the same period, in which the costs to be allocated have been incurred.

- *Represents Actual Cost or Effort Expended:* The base should be a measure of actual cost or effort expended. It should not be based on a plan, budget, job description, or other estimate of planned activity.
- *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.
- *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 excludes factors that are affected by variations in funding, it will produce distorted results.
- *Materiality:* The complexity of the base should be commensurate with the materiality of the costs to be allocated. 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 cost.
- *Practicality:* The base should be efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, use a database that already exists for financial or participant record keeping.
- *The Best Base:* There is no single answer to the question of what the best base will be in a given situation. The answer depends upon the type of organization, methods of program delivery, accounting, and participant reporting systems and types of costs reported in the pool.

### 3. Unacceptable Allocation Bases

In general, unacceptable allocation bases are those that do not meet the criteria stated just above. These would include bases that:

- Distort final results.
- Do not represent actual effort or cost expended.
- Are not used consistently over time.
- Do not have an integral relationship to the types of costs being allocated.

A common error in choosing a base is to use a plan, budget, or other estimate of future effort or cost. In almost every circumstance, this type of base is not acceptable because it does not measure actual activity, effort, or cost. Some commonly used bases that fall into the unacceptable category include the use of:

- Funds allotted by program to allocate pooled administrative 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;
- Using results from prior periods to allocate current period costs.

### C. Cost Pools

Cost Pools are intermediate cost objectives or temporary accounts used to aggregate costs that cannot be readily assigned to final cost objectives.

Costs charged initially to a cost pool are subsequently allocated to the benefiting program and cost category in proportion to the relative benefits received by each.

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

- Indirect cost pool
- Training cost pools
- Intake cost pools
- Administrative cost pools

Consider the following when developing cost pools:

- *Written Allocation Plan* - The cost pool should be described and documented in a written cost allocation plan.
- *Combined Administrative Costs* - Shared administrative costs can be combined with any indirect administrative costs and allocated to the various programs.
- *Direct Training* - Shared direct training costs can be pooled and distributed to the various programs.
- *Personal Services* - Personal service costs of internal staff that spends a portion of their time in administrative and a portion of their time in allowable direct training can be individually distributed among the respective cost categories using staff time records or other verifiable means.
- *Limitation* - Costs that may be pooled are limited to shared direct and indirect costs. Assignable direct costs should not be pooled, but rather should be directly charged to the benefiting cost objective.

#### D. Cost Allocation Plans

##### 1. In General

The Cost Allocation Plan (CAP) is a document that identifies, accumulates, and distributes allowable direct and indirect costs under contracts, and identifies the allocation methods used for distributing the costs.

Each Subrecipient is to have an allocation plan if indirect costs, multiple contracts or multiple funding sources exist. The plan should be revised on an annual basis with each budget for new or renewing contracts.

A plan for allocating joint costs is required to support the distribution of these costs to the contract programs. Formal accounting records to substantiate the propriety of the charges must support all costs included in the plan.

The most common type of allocation plan is one that distributes the administrative or other joint costs incurred within a performing department to all work performed by the department. This type of plan is developed to allocate costs between the various programs and between cost categories.

## 2. Contents of CAP

The CAP should include at least the following elements:

- *Organization chart* that identifies all departments, types of services provided, and staff functions.
- *Description of the types of services* provided and their relevance to the various programs.
- Copy of official *financial statements* and budgets.
- *Expense items* included in the cost of services. This would include all joint or pooled costs needing to be allocated.
- The *method 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 official of SDWP that the plan has been prepared in accordance with the applicable federal rules and regulations.

Other Considerations:

- *Keep It Simple*: Use the simplest and least costly method possible, 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 replicable at any time.
- *Simplify Organizational Structure*: Make the organizational structure no more complicated than necessary to allocate costs.
- *Accounting System Requirements*: The required structure and capabilities of your accounting system must be considered in designing an operable cost allocation process.
- *Prudent Changes*: Changes in the organization's cost allocation plan may be made from time to time, even with retroactive impact. These changes must result in a more equitable distribution of costs. These changes must be rare, receive prior approval from SDWP, be justified, and be well documented.

## XVI. Attachments

[Close Out Instructions and Forms](#)

[Close Out of Fixed Assets](#)

[Profits Analysis Worksheet](#)

[Request for Over Budget Form](#)