

**SAN DIEGO WORKFORCE  
PARTNERSHIP OPERATIONS  
MANUAL**

**Chapter VI**

**Financial Management**

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**San Diego Workforce Partnership, Inc.**  
**Operations Manual – Chapter VI**

**FINANCIAL MANAGEMENT**

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## CHAPTER VI

### FINANCIAL MANAGEMENT

#### 6.0 INTRODUCTION

This chapter is designed to provide operational financial guidance to the organizations that contract with the San Diego Workforce Partnership (Workforce Partnership) and prescribes the uniform accounting procedures for the implementation of the provisions of federal job training programs. The Workforce Partnership is the designated grant recipient and grant administrator of federal and state grants and agreements under applicable federal job training acts for the City and County of San Diego. Therefore, contracts awarded by the Workforce Partnership are subject to the applicable funding acts and the applicable regulations. This includes, but is not limited to the Workforce Investment Act (WIA) 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 the Workforce Partnership.

Each contractor must establish a sound financial management system to comply with the applicable financial, accounting and reporting requirements. Each contractor is also responsible for passing all applicable policies and regulations to their subcontractors, as well as monitoring the performance of those subcontractors, as it relates to the expenditure of the funds provided by the Workforce Partnership.

Office of Management and Budget (OMB) Circulars A-21, A-87, and A-122 (see links below), 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.

- ⇒ OMB Circular A-21 covers education institutions.  
<http://www.whitehouse.gov/omb/circulars/a021/a021.html>
- ⇒ OMB Circular A-87 covers state and local governments.  
[http://www.whitehouse.gov/omb/circulars/a087/a87\\_2004.html](http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html)
- ⇒ OMB Circular A-122 covers non-profit organizations.  
<http://www.whitehouse.gov/omb/circulars/a122/a122.html>

A sound financial management system is necessary to control and account for the use of funds provided to contractors. At a minimum, the contractor's 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 contractor's financial management system must adhere to the following seven standards:

1. Accurate, current, and complete disclosure of the financial results of contracted activities must be made in accordance with the reporting requirements of the grant or subgrant and reflect expenditures in accordance with the required cost classification categories and budgets.
2. Adequate accounting records must be maintained that provide information specific to the receipt and use of Workforce Partnership funds. Such information must contain information pertaining to grant, subgrant and/or contract awards, obligations, unobligated balances, assets, liabilities, outlays or expenditures, revenue, and program income.
3. Effective administrative and internal controls must be maintained for all grant and/or contract cash, real and personal property, and other grant assets. Grantees and subgrantees must safeguard all such property and must assure assets are used only for authorized purposes.
4. 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.
5. 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 grant and contracts will be followed.
6. Accounting records must be supported by source documentation such as cancelled checks, paid invoices, payroll records, time and attendance records, contract and contract award documents, etc. Proper procedures and methods to meet audit standards, including storage and retention of source documentation to support accounting records, are required.
7. 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 circulars, federal or state regulations, and grant provisions.

## **6.1 ADMINISTRATIVE AND INTERNAL CONTROLS**

Upon entering into a Workforce Partnership contract, an organization accepts 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 contract award. Which procedures are used will depend on the number of employees involved and the size and complexity of the organization:

### **6.1.1 Management Controls**

Contractors 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;
- > 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.

### **6.1.2 Personnel Supervision**

The contractor 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;
- > Staff performance must be monitored and evaluated on a periodic basis.

### **6.1.3 Expenditure Control**

The contracting organization is 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 contracting organization officials authorize quality, quantity, and prices and that such authorizations are consistent with the procurement requirements of the funding source (e.g. WIA). See Chapter III, Property Management, for detailed procedures for property acquisition.
- > Expenditures are kept within the established budget and cost categories to prevent over-expenditures.

### **6.1.4 Inventory Control**

The contracting organization shall safeguard all property purchased with funds provided by the Workforce Partnership and annually inventory such property to prevent misuse, waste, deterioration, destruction, or misappropriation. (See Chapter III, Property Management, for detailed property inventory procedures.)



## **6.2 ACCOUNTING SYSTEM**

The contracting organization is not required to establish a separate accounting system to account for and to control Workforce Partnership provided funds. However, the contracting organization's accounting process must meet the following general criteria.

### **6.2.1 Separate Recording of Funds**

Federal rules require separate accounting not only for contract funds received directly from the Workforce Partnership, 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 contractors except public entities, Workforce Partnership funds may not be commingled with those obtained from any other source, (as stated in the Workforce Partnership's Contract General Provisions, Sec. 28.0, Commingling of Funds).

### **6.2.2 Accrual Reporting**

Contracting organizations are not required to establish an accrual accounting system, but they must determine accruals for reporting purposes. The organization must provide information to compile data that satisfies the definition of accrued expenditures. Accrued expenditures are the charges incurred by the contracting organization 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.

### **6.2.3 Accuracy, Update, and Availability of Financial Records**

The accounting system must provide the contracting organization 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 the Workforce Partnership. These records must also show authorization thresholds, limits and approvals to ensure funds are expended within budgetary limits.

### **6.2.4 Financial Records**

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

#### 6.2.4.1 Cash Receipts Register/Journal

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

#### 6.2.4.2 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).

#### 6.2.4.3 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.

#### 6.2.4.4 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 contracting organization shall make journal entries.

#### 6.2.4.5 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.

## 6.2.5 Standards of Documentation

Adequate documentation in support of transactions should include all records (i.e., proposals in response to RFPs, 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.

## 6.2.6 Reporting Requirements

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

- > 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. An invoice is also used when requesting a cash advance. (See the Cash requirements outlined in the Contracting sections of this chapter.)
- > An In-Kind/Stand-In report is submitted monthly with the contractor's invoice to identify program expenditures that are not paid by the Workforce Partnership as part of the contract. Some contractors may be required to provide matching funds or services as part of their contracts, and thus submit additional relevant reports. (See the sections of this chapter covering Matching Costs and Stand-In Costs for more detail.)
- > 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 contracting organization plans to expend any unspent program income.

## 6.3 COSTS AND COST CATEGORIES

### 6.3.1 Costs in General; OMB Circulars

Federal law and regulations (e.g. WIA) provide guidance on the subject of allowable job training activities. This guidance addresses the types of program activities that are allowable. All contractors must be familiar with the Federal rules that govern what costs may be actually charged to a contract. OMB Circulars A-21, A-87, and A-122 were used in the development of this chapter, providing a foundation to build allowable cost guidelines. While the circulars do not address every possible cost, they are the groundwork for all grant financial management, and contractors should rely on their guidance. An extensive familiarity with OMB circulars, coupled with knowledge of the provisions and

certifications contained in the grant and their contract, will help contractors avoid possible audit discrepancies.

Because the OMB Cost Circulars are 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 WIA Regulations, they are referenced within the regulations, are important, and should be considered in making decisions concerning the expenditure of funds.

1. 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.
2. 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.
3. Costs should be consistent with policies, regulations, and procedures that apply uniformly to other activities of the contractor's organization.
4. 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.
5. A contractor 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.

### **6.3.2 Cost Principles Specific to WIA**

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

1. Costs must be "necessary and reasonable for the proper and efficient administration" of the contracted program. For WIA, the costs must be expended for the purposes referenced in WIA regulations at 20 CFR 667.200. 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 grantee or sub-recipient, except as specifically provided for in the grant or contract.

2. Costs must be allocable. A grantee can charge costs to the contract if those costs are clearly identifiable as benefiting the job training program. Costs charged to a specific job training program should benefit only that specific job training program, not other programs or activities. If a contractor conducts 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. A contractor can only allocate to the job-training contract the portion of time that a person spends supporting the implementation of allowable job training activities for that program.
3. Costs should not be a general expense of the governor or a governmental subrecipient. Salaries and costs incurred by states, counties, cities, or school boards not directly related to the job-training program are unallowable.
4. Costs should be accorded consistent treatment through application of generally accepted accounting principles appropriate to the type of organization involved.
5. Costs allocable to other cost objectives may not be shifted to a job training cost objective. Likewise, job training 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.
6. 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 awards 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 WIA grant or contract either as a cost reduction or cash refund, as appropriate.

The WIA regulations specify that the definitions for direct and indirect costs contained in the OMB Cost Circular, applicable to the type of organization involved, be used to determine whether costs are direct or indirect.

### **6.3.3 Cost Categories**

There are two cost categories, “administration” and “program” used by the Workforce Partnership. The WIA definition of Administration is found in WIA Final Rules section 667.220.

#### **6.3.3.1 Administration**

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

#### **6.3.3.2 Program**

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

## **6.4 ALLOWABLE COSTS**

### **6.4.1 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.

#### **6.4.1.1 General Guidelines for Allowable Costs**

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

1. Be necessary and reasonable for the proper and efficient administration of the program.
2. Be allocable to the program, period, and cost category benefited.
3. Be authorized and not prohibited by federal, state or local laws and regulations.
4. Be consistent with policies, regulations, and procedures that uniformly apply to other activities of the organization of which the contractor is a part.

5. Be accorded consistent treatment through the application of generally accepted accounting principles appropriate to the circumstances.
6. 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.
7. Be the net of all applicable credits such as discounts, rebates, and trade-in allowances.
8. Be adequately documented.

#### **6.4.2 Allowable Cost Guidelines**

The WIA Sections 1178 (f)(1), 129 (c)(6), 134 (d) (2) through (4), 181 (d) and (e) and 188 (a)(3) and WIA Final Rule, Sections 661.310, 667.200, 627.260 and 667.268 provide guidance regarding cost principles and allowable costs and refers to the OMB circulars for specific requirements, according to the type of organization expending the funds. The OMB circular guidance may vary from one type of organization to another, based on the circular that applies to each type of organization, as follows:

- Cost Principles for Educational Institutions - OMB Circular A-21;
- Cost Principles for State, local and Indian Tribal Governments - OMB Circular A-87;
- Cost Principles for Non-profit organizations - OMB Circular A-122;
- Audits of States, Local governments and Non-Profit Organizations – OMB Circular A-133; and
- Contract Cost Principles and Procedures - Title 48 CFR, Part 31.

Please note that although the OMB circulars refer to federal guidance regarding the approval process for purchase and construction of facilities, WIA Regulations, Section 667.260, prohibits the purchase or construction of facilities. The regulations allow a few exceptions regarding renovation and repair (see details in Section 667.260); however, a written request for approval must be submitted to your Program Specialist prior to undertaking any renovations or repairs.

Expenditures of WIA funds are allowable only for activities that are permitted by the WIA law or the Regulations. Allowable activities for Adults and Dislocated workers are described in WIA Section 134 (c) (2), (3), and (4). Allowable and unallowable Youth activities are found in WIA Section 129.

The WIA Directive, WIAD03-10, Allowable Costs requires that all One-Stop Operators and Adult and Youth service providers expending WIA funds comply with federal allowable costs regulations and policies. It is each organization's responsibility to become familiar with and comply with the OMB circulars that are applicable to that organization, as well as the WIA and the Final WIA Regulations, to ensure that the programs and expenditures meet all requirements. Each organization must ensure that their staff and subcontractors who are expending WIA funds are also aware of and following the general cost principles and WIA allowable costs. The Policies and Procedures listed on pages 2 and 3 of Directive WIA03-10 and the Cost Items Matrix beginning on page 4 provide guidance on what are allowable and what are unallowable costs under WIA. Please read this Directive thoroughly and ensure that staff and subcontractors are fully aware of these requirements.

All recipients and sub-recipients must follow the federal allowable cost principles that apply to their type of organization. The DOL regulations at 29 CFR 95.27 and 29 CFR 97.22 identify the federal principles for determining allowable costs which each type of recipient and sub-recipient must follow.

1. Allowable costs for state, local, and Indian tribal government organizations must be determined under OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments."
2. Allowable costs for non-profit organizations must be determined under OMB Circular A-122, "Cost Principles for Non-Profit Organizations."
3. Allowable costs for institutions of higher education must be determined under OMB Circular A-21, "Cost Principles for Educational Institutions."
4. Allowable costs for hospitals must be determined in accordance under appendix E of 45 CFR part 74, "Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals."
5. Allowable costs for commercial organizations and those non-profit organizations listed in OMB Circular A-122 must be determined under the provisions of the Federal Acquisition Regulation (FAR) at 48 CFR part 31.

## **6.5 STAND-IN COSTS**

### **6.5.1 General Rules & Regulations**

#### **6.5.1.1 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.

#### 6.5.1.2 In General

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

- o Project costs financed with cash donated to the contractor by third parties.
- o Project costs financed with Program Income, except federal source income (see Section 6.6, Program Income).

#### 6.5.1.3 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 contractor 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.

#### 6.5.1.4 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.

### 6.5.2 Stand-In Cost Criteria

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

1. Must be allowable costs that were actually incurred by the program contractor and which were paid by a non-federal source.
2. 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 contractor's monthly financial reports to the Workforce Partnership.

3. Must have been accounted for in the contractor's financial system. The unbilled expense must be recorded and documented in the contractor's regular accounting records. It cannot be presented as a separate consideration outside the entity's accounting system.
4. Must be included within the scope of the contractor's audit, not necessarily tested but potentially subject to testing. The costs must be recorded and included in the contractor's financial statements that are presented to their auditors. Failure to include unbilled costs disqualifies the costs for Stand-In consideration.
5. 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.

### **6.5.3 Examples of Stand-In Costs**

- A contractor receives donated cash from a third party and uses this cash on a WIA contract. The contractor has a record of the donation and the amount of the expenditure for the WIA program which can be audited at the source by the Workforce Partnership, and which is reported on the contractor's financial statement.
- A school district has supplied the Workforce Partnership with documentation from the federal government showing that they have an approved indirect rate of 10%. The contract with the Workforce Partnership limits the contractor to an 8% indirect rate. The additional 2% indirect rate expenses that the contractor 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.

### **6.5.4 Reporting**

In all cases, the contractor is 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 (e.g. 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.

## 6.6 PROGRAM INCOME

### 6.6.1 General Rules & Regulations

Program income is defined and addressed extensively in the WIA regulations at Section 667.200 and State Directive WIAD01-6. See also 29 CFR 95.24 (non-government entities) and 29 CFR 97.25 (governmental entities).

Each entity receiving federally funded financial assistance (e.g. WIA) 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 Workforce Partnership-funded contractors must comply with the following Program Income Policy:

#### 6.6.1.1 Reporting

Each contractor is responsible for reporting all program income earned and expended. Each contractor must submit the Program Income Report, which is part of the cost reimbursement package, monthly to the Workforce Partnership, even to report \$0 program income. Each contractor with a program income balance at the end of each month must submit a Disposition Plan along with the Program Income report on a monthly basis, describing the planned use of the program income balance. Contractors shall spend program income on participant services rather than capacity building activities. The Disposition Plan must specifically describe the planned expenditures. Additionally, as the contractor expends the program income, a Program Income Expenditure Report is required to be submitted, detailing the amount of program income expended and for what purpose.

Contractors 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.

#### 6.6.1.2 Accounting

Each entity receiving funds from the Workforce Partnership must keep records sufficient to determine the amount of program income received and the purposes for which such income is expended. Contractors must track program income expenditures on a first-in, first-out basis. Each contractor must establish a separate financial account to track program income earned and expended. The addition method, described in 29 CFR 95.24 or 29 CFR 97.25(g)(2) must be used for the recording and reporting of program income.

### 6.6.1.3 Excessive Program Income Balances

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

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

## 6.6.2 Types and Examples of Program Income

Program income includes:

### 6.6.2.1 Fees

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

### 6.2.2.2 Conferences

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

### 6.6.2.3 Rental or User Fees

Income from the use or rental of real or personal property acquired with contract funds. An example would be when the contractor purchases 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.

### 6.6.2.4 Sale of Product

Income from the sale of commodities fabricated under a contract: An example 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.

#### 6.6.2.5 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. The service provider 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.

#### 6.6.2.6 Interest Income

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

### **6.6.3 Items that are NOT Program Income**

WIA regulations (20 CFR 667.200) list the types of revenues and adjustments to expenditures that are NOT included as program income. Items that are NOT program income include:

#### 6.6.3.1 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).

#### 6.6.3.2 Royalties and License Fees

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

#### 6.6.3.3 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 OMB Circulars. Proceeds from the sale of property are not program income, but are often required to be returned to the awarding agency or to DOL. Additional

guidance on acquiring and disposing of real property is covered in the Operations Manual - Chapter III, Property Management.

#### 6.6.3.4 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.

#### 6.6.3.5 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.

#### 6.6.3.6 Non-Federal Source Funds

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

#### 6.6.3.7 Matching Funds

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

#### 6.6.3.8 Interest Income

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

### **6.6.4 General Use of Program Income**

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

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

#### 6.6.4.1 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.

#### 6.6.4.2 Return of Program Income

If program income is used in an unallowable way, the contractor is liable to the Workforce Partnership for the repayment of these funds from non-Federal sources.

#### 6.6.4.3 Usage Restriction

Program income may be used for any purpose allowable under the contract by which it was earned. See Section 6.6, which provides usage policies.

#### 6.6.4.4 Tracking

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

#### 6.6.4.5 Loans Prohibited

Program income may not be loaned.

#### 6.6.4.6 Disallowed Costs

Program income may not be spent to cover disallowed costs.

#### 6.6.4.7 Equipment Purchases

Any equipment purchased with program income is subject to the Workforce Partnership's Property Management Procedures. See the Workforce Partnership's Operations Manual - Chapter III.

### 6.6.5 Forms

Forms used for the reporting of program income are available in electronic form and are provided to the contractor by the Workforce Partnership. The forms are as follows:

#### 6.6.5.1 Program Income Report

This report must be submitted monthly to the Workforce Partnership even when no program income has been generated.

#### 6.6.5.2 Program Income Report - Schedule of Expenditures

This form provides a detailed breakdown of expenditures during the current month for which program income has been used.

#### 6.6.5.3 Program Income Report - Plan for Disposition of Program Income

When program income has been earned, a plan for its disposition by the contractor is required on the Plan for Disposition of Program Income Form 1008. This plan must be submitted to the Workforce Partnership with the Program Income Reports (Forms 1005 described above). The plan is subject to review and approval by the Workforce Partnership.

Contact the Workforce Partnership for the forms referred to above.

## 6.7 CASH ADVANCES

### 6.7.1 Financial Need

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

### 6.7.2 Procedure

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

### 6.7.3 Limitation

If the request is approved, the amount advanced will cover the estimated cash needs of the Contractor for a one-month period not to exceed 20% of the contract amount.



#### **6.7.4 Repayment Terms**

The initial month's actual expenditures will be applied to the cash advance. If the initial month's expenditures are less than the cash advance, subsequent months expenditures will be applied until the cash advance is repaid. Thereafter, the contractor will be reimbursed for actual cash disbursements.

#### **6.7.5 Interest Earned**

Cash advances are intended to be used for immediate cash needs; however, any cash received from the Workforce Partnership shall be placed in an interest-bearing account until used. Any interest earnings are to be recorded as program income and reported and expended as directed in Section 6.6.

### **6.8 REPORTING REQUIREMENTS**

#### **6.8.1 Monthly Invoices**

Contractors must submit a monthly E-invoice package for each contract and for each funding source within a contract, if multiple funding sources exist. Contractor must report all expenses and Subcontractors' expenses on an accrual basis each month. The E-invoice package must be generated from the Contractor's electronic accounting system. In the event a Contractor 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/Stand-In Report
- Contract to Date Revenue and Expenditure Report
- Supporting Documentation Report.

#### **6.8.2 Limitations and Due Dates**

Only one 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 8th calendar day of the month** following the month in which the expenses were incurred, unless otherwise stipulated in the contract.

#### **6.8.3 Program Income and In-Kind/Stand-In Reports**

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

#### **6.8.4 Equipment Purchases**

As stated in more detail in Chapter III, Acquisition & 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 the Workforce Partnership has been raised to \$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. Please refer to “Operations Manual Revision: Chapter III - Acquisition and Property Management,” distributed as Operations Issuance 2009-15 on June 19, 2009, for detailed instructions on this procedure.

### **6.8.5 Correct and Complete Documentation**

E-invoice packages submitted without all required detail and reports will be returned to the Contractor and will not be processed until the Workforce Partnership receives all correct and complete documentation. All documentation must contain original signatures of authorized Contractor staff, unless the Workforce Partnership 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 6.8.2 – “Limitations and Due Dates.” Erroneous E-invoice packages received before the deadline will be returned to the Contractor 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.

### **6.8.6 Additional Reporting Requirements**

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

## **6.9 CONTRACT CLOSEOUT**

### **6.9.1 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.

### **6.9.2 Required Actions**

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

1. Prepare and submit the final invoice including all final allowable contract expenses, by July 31 for annual contracts based on the fiscal year cycle.
2. Complete and sign all closeout documents. The closeout package is mailed to the contractor prior to the end of the contract (contact the Workforce Partnership for Contract Close-out Instructions, if needed earlier). The closeout package includes the following forms:
  - Contractor's transmittal letter of closeout documents
  - Contractor's release
  - Contractor's assignment of refunds, rebates, and credits
  - Inventory certificate
  - Tax certification
  - Property inventory list
  - Final In-Kind/Stand-In funds report
  - Final program income reports

The closeout package is due on or before July 31 for annual contracts based on the fiscal year cycle. A penalty of 1% of the final invoice or \$1000, whichever is lower, will be applied to invoices that are submitted with errors after the 8<sup>th</sup> calendar day of the month. Erroneous invoices received before this time will be returned to the contractor, 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 the Workforce Partnership
  - Special Workforce Partnership bank accounts
  - Unclaimed wages
  - Other refunds and cancelled checks
  - Invoice and Revenue & Expense report
  - Subcontractor closeouts
3. Return to the Workforce Partnership any cash received in excess of the amount needed to pay non-cancelable obligations and accrued expenses.
  4. Return to the Workforce Partnership all interest earned on contract funds, which is unspent at the contract's end.

5. Return to the Workforce Partnership other program income generated, unless these funds were mutually agreed upon to further the objectives of the program. See the procedures specified under “Program Income” Section 6.6.
6. Return to the Workforce Partnership 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.
7. The contracting organization shall also request of all its subcontractors, vendors, 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. The Workforce Partnership shall not be responsible for outstanding claims or liabilities not indicated in the contract closeout documents.

## 6.10 AUDIT

### 6.10.1 Audit Rules

#### 6.10.1.1 Applicable Law

The Single Audit Act (SAA), as amended, sets audit requirements for all recipients of Federal funds. WIA is subject to the audit rules in OMB Circular A-133, as amended. (See also 29 CFR 97.26 for governmental organizations and 29 CFR 95.26 for institutions of higher education, hospitals, and other non-profit organization, for more specific requirements). OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations has been revised to show changes published in the *Federal Register* on June 27, 2003. A link to the revised Circular can be accessed at:

<http://www.whitehouse.gov/omb/circulars/a133/a133.html>

As indicated in State Directive WIAD05-16, Audit Requirements, issued on May 25, 2006, located at [www.edd.cahwnet.gov/wiarep/wiad03-7.pdf](http://www.edd.cahwnet.gov/wiarep/wiad03-7.pdf):

Each subcontract or cooperative agreement of the One-Stops Operators or Contracted Service Providers shall contain the following requirement:

As a condition of receiving WIA funds, the independent auditor or monitor of the Workforce Partnership, 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 WIA statute, regulations and directives.

All entities that spend \$500,000 or more in combined federal financial assistance in a year are required to have an audit of their financial activities.

Commercial (for-profit) organizations that receive federal funds must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program-specific financial and compliance audit.

The Workforce Partnership will consider additional compliance monitoring or other actions for organizations with less than \$500,000 per year in federal awards. Organizations may not charge the cost of an audit to federal funds if the organization expended less than \$500,000 in total federal awards (all sources).

Title 29 CFR Sections 95.26 and 97.26 require each entity receiving funds under the WIA to comply with Title 31 USC Chapter 75.

Title 31 USC Section 7502 further requires each pass-through entity to:

Monitor the subcontractor's federal awards 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 awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subcontractor's records and financial statements, as may be necessary.

#### 6.10.1.2 General Rules for All Audits

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

#### 6.10.1.3 Rules for Non-Profit and Governmental Entities (OMB Circular A-133)

OMB Circular A-133 is titled Audits of States, Local Governments, and Non-profit Organizations (see link to this Circular in 6.10.1.1 above).

The items noted here are the highlights of that Circular as it applies to Workforce Partnership contracts. Any organization that requires an audit should refer to the full text of OMB Circular A-133.

Each non-profit organization that receives \$500,000 or more a year in federal awards must have an organization-wide audit. However, if the award is with regard to only one program, the non-profit entity has the option of having an audit made of just the one 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). See Section 6.10.1.5 below for definitions.

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 OMB Circular A-133 (see §. 305 (b) on page 12 of the above-referenced Circular).

The revised OMB Circular A-133 contains additional requirements, which are less significant, and we encourage organizations to carefully read the OMB Circular A-133 and appropriately comply with these regulations if they are not already part of the organization’s policy and procedures. The OMB Circular A-133 is law and must be followed.

#### 6.10.1.4 Rules for Commercial Organizations

WIA Regulations section 667.200 provides the federal guidelines on audits of commercial entities.

Commercial entities that receive federal awards (i.e. contracts to perform WIA services) are to be distinguished from “vendors” who supply goods or services in support of WIA programs. Vendors are not required to have audits.

Each commercial entity that receives \$500,000 or more a year in federal awards 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. See Section 6.10.1.5 below for definitions.

If an organization-wide audit is chosen, it must include financial and compliance coverage of the WIA program within its scope, in

accordance with Generally Accepted Auditing Standards (GAAS). See Section 6.10.1.5 below for definitions.

Any commercial organization that receives less than \$500,000 in federal financial assistance in a fiscal year has no federal audit requirement.

#### 6.10.1.5 Audit Definitions

Auditing firms perform various types of audits. The auditee organization (the contractor) 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.

##### 6.10.1.5.1 GAAS Audit

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

##### 6.10.1.5.2 GAGAS Audit

##### 6.10.1.5.3

In addition to the above report, an audit that meets Generally Accepted Government Auditing Standards will have two additional components:

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

##### 6.10.1.5.4 SAA Audit

An audit that meets Single Audit Act (SAA) Standards, A-128 or A-133, as appropriate, will have five 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 parts, or all of the elements listed above.

The cost of the audit qualifies as an allowable cost under WIA 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. See Section 6.10.1.6 below.
- Field Work at the contractor's site(s) by auditor's staff.
- Discussion of Findings between auditor and contractor.
- Draft Audit Report prepared by auditor and reviewed by contractor.
- Exit Conference to discuss audit report.
- Final Report prepared by auditor and distributed to the contractor.

#### 6.10.1.6 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



## 6.10.2 Audit Resolution

### 6.10.2.1 General Process

The Workforce Partnership is responsible for enforcing the above audit requirements on its federally funded contracts (e.g. WIA).

The Workforce Partnership has adopted the audit resolution procedures as outlined in State Directive WIAD05-17, Audit Resolution for WIA programs. This Directive can be accessed online at [www.edd.cahwnet.gov/wiarep/wiad01-3.pdf](http://www.edd.cahwnet.gov/wiarep/wiad01-3.pdf).

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

Following the receipt of the audit reports, the Workforce Partnership 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 the Workforce Partnership 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 auditee (contractor) with its appeal rights.

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

1. Initial Determination
2. Informal Resolution Period
3. Final Determination

### 6.10.2.2 Audit Resolution Phases

#### 6.10.2.2.1 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 (contractor) an opportunity for informal resolution.

The Initial Determination is sent directly to the auditee (contractor) 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 the Workforce Partnership and the contractor.
- ◆ 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 contractor, and followed up.
- ◆ Any sanctions and remedial actions that may be taken against the contractor if the deficiency is not corrected should be spelled out.

#### 6.10.2.2.2 Informal Resolution Period

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

The contractor may agree to corrective action before the Workforce Partnership initiates sanctions or other remedial actions.

The contractor may admit to the disallowance of a questioned cost and make repayment, or negotiate terms of repayment.

#### 6.10.2.2.3 Final Determination

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

The Final Determination report should contain the following:

- ◆ Reference to the Initial Determination;
- ◆ Statement of the Workforce Partnership'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 the Workforce **Partnership 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.

#### 6.10.2.2.4 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 awarding agency of the funds in question (EDD, DOL, HHS, 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 EDD Directive WIAD05-17, Audit Resolution issued on May 25, 2006, as follows:

- The hearing shall be recorded mechanically or by court reporter. The auditee has 30 calendar days after the Final Determination is issued to submit a written request for a hearing. At least 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 60 days of the request filing date.
- An auditee has 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 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 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.

## **6.11 DEBT COLLECTION PROCEDURES**

In cases where it is determined that repayment of misspent funds is required from a Workforce Partnership funded contract, the Workforce Partnership 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 Employment Development Department's (EDD) Compliance Review Office (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.

### **6.11.1 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 contractor regarding the amount and nature of the disallowed cost. The initial determination will provide thirty- (30) calendar days for the contractor to seek an informal resolution.

### **6.11.2 Final Determination**

If there is no satisfactory resolution as a result of the initial determination it will be concluded that funds have been misexpended and a Final Determination will be issued, formally notifying the contractor that a debt has been established. The notification will include the appeal rights of the contractor, 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 contractor is prohibited from receiving future contracts.

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

### **6.11.3 Appeal Process**

In accordance with Chapter X of the Workforce Partnership's Operations Manual "Program and Criminal Complaint Policy and Procedures," a contractor may file a written appeal with the Workforce Partnership 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 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.

### **6.11.4 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, the Workforce Partnership will forward three debt collection letters at no less than thirty-(30) calendar day intervals.

The first letter will advise the contractor that payment has not been received and will reiterate the information contained in the Final Determination.

The Workforce Partnership 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 contractor 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, the Workforce Partnership will forward the third debt collection letter. The third letter will advise the contractor 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.

#### **6.11.5 Waiver of Liability for Debt Collection**

If debtor is unable to restate in full and no other arrangement is approved, Workforce Partnership may request to be relieved of liability for debt. The Workforce Partnership will submit a written request that EDD seek the Department of Labor (DOL) agreement to forego collection action (pursuant to the provisions of Title 20 CFR Section 667.730) to CRO. Requests must include demonstrations of facts showing compliance with WIA section 184(d) and Title 20 CFR Section 667.730 and appropriate documentation; such as, proof that all three debt collection letters were sent, litigation was conducted, and withholding of funds was attempted. Without the prior approval of both CRO and DOL, Workforce Partnership will remain liable for repayment of the entire debt.

#### **6.11.6 Permanent Record**

The Workforce Partnership 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 the Workforce Partnership 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.

### **6.12 COST ALLOCATION**

## 6.12.1 Cost Allocation Principles

### 6.12.1.1 In General

To be chargeable to a contract funded by the Workforce Partnership, 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 (e.g. 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 OMB Circulars listed below).

### 6.12.1.2 Applicable Law

Allocable costs can be of two types, either direct or indirect. The OMB Circulars cover the distinction between these two, in addition to the principles in assigning costs.

For different types of organizations, different OMB Circulars apply:

- OMB Circular A-21 covers education institutions.  
<http://www.whitehouse.gov/omb/circulars/a021/a021.html>
- OMB Circular A-87 covers state and local governments.  
[http://www.whitehouse.gov/omb/circulars/a087/a87\\_2004.html](http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html)
- OMB Circular A-122 covers non-profit organizations.  
<http://www.whitehouse.gov/omb/circulars/a122/a122.html>

The WIA and the OMB Circulars provide only general guidance. As a result, this section is a general guide to cost allocation based upon applicable principles and not on detailed regulatory procedures.

### 6.12.1.3 Elements of Cost and their Allocability

#### 6.12.1.3.1 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.

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.

#### 6.12.1.3.2 Indirect Costs

Indirect costs are those, incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objective specifically benefited without effort disproportionate to the results achieved.

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.

#### 6.12.1.3.3 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 WIA 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.

#### 6.12.1.3.4 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 contractor 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.

## **Allocation Bases**

### 6.12.2.1 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.

#### 6.12.2.2 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.

#### 6.12.2.3 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.

#### 6.12.2.4 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.

### 6.12.3 Cost Allocation Plans

#### 6.12.3.1 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 Workforce Partnership contractor 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.

#### 6.12.3.2 Contents of the Cost Allocation Plan (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 the Workforce Partnership 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 the Workforce Partnership, be justified, and be well documented.