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DEPARTMENT OF LABOR AND EMPLOYMENT

OFFICE OF THE EXECUTIVE DIRECTOR

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Category: Finance (F)
Subject: Subrecipient Financial Procedures
Source: State/Federal
Revise/Replace: Governor's Job Training Office Policy Guidance Letter (PGL) # 01-14-F1
Contact: Finance
Distribution: All Workforce Region and Subrecipient Administrative and Financial Staff
Colorado One-Stop System Policy Guidance Letter #: 06-12-F1
Date: September 25, 2006

I. REFERENCES:

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*; OMB Circular A-122, *Cost Principles for Non-Profit Organizations*; OMB Circular A-21, *Cost Principles for Educational Institutions*; 29 Code of Federal Regulation (CFR) Part 97, *Common Rule for Uniform Administrative Requirements for Grant and Cooperative Agreements to State and Local Governments*, OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*; Colorado Job Training Partnership Act Policy Guidance Letter #01-14-F1, *Colorado Department of Labor and Employment Subrecipient Financial Procedures.*

II. PURPOSE:

To provide subrecipient financial record keeping and reporting guidelines to meet federal statutory and regulatory requirements and ensure uniformity in definition.

III. BACKGROUND:

The *Common Rule for Uniform Administrative Requirements for Grant and Cooperative Agreements to State and Local Governments*, at Subpart C, section .20, states the standards for financial management and specifies, "A state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) 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." In addition, it states, "The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant." The financial administration criteria, and other reporting and record keeping requirements are addressed by the Colorado Department of Labor and Employment (CDLE) in the attached "Subrecipient Financial Procedures."

IV. POLICY/ACTION:

With the issuance of this PGL, the CDLE is establishing our revised subrecipient financial procedures. (Attachment 1)

PGL #01-14-F1 should be referred to for expenditures prior to the issuance date of this PGL.

V. IMPLEMENTATION DATE

This PGL is effective for all expenditures incurred on or after the issuance date of this PGL .

VI. INQUIRIES:

Inquiries concerning this PGL should be directed to the Employment and Training Accountant or Auditor, at 303-318-8117 or 303-318-8057 and 303-318-8126, respectively.

Shawn G. Milne, Controller
Office of Finance

Attachments: 1, A - L

Attachment 1

COLORADO DEPARTMENT OF LABOR AND EMPLOYMENT SUBRECIPIENT FINANCIAL PROCEDURES

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I. STATEWIDE FINANCIAL REPORTING SYSTEM OVERVIEW

In order to meet the Federal reporting requirements and ensure compliance with State and Federal laws and regulations pertaining to the Federal funds administered by the Colorado Department of Labor and Employment (CDLE), the CDLE must maintain a financial system within the State that provides fiscal control and accounting procedures sufficient to:

A. Provide Federally required records and reports that are uniform in definition, accessible to authorized Federal and State staff and verifiable for monitoring, reporting, audit, and evaluation;

B. Permit preparation of reports required by 29 CFR Part 97 and the statutes authorizing the applicable grant(s) by Federal deadlines; and

C. Permit the tracing of funds to a level of expenditure adequate to establish that funds have not been used in violation of the restrictions and prohibitions on the use of such funds. Restrictions governing the use of funds are in the Federal statutes and regulations under which the funds were awarded, applicable Policy Guidance Letters (PGLs), the OMB Circulars, and the Generally Accepted Accounting Principles (GAAP).

The Job Training Partnership Act (JTPA) system of Colorado used the computerized financial reporting system developed by Computer Systems Design, Incorporated, (hereafter referred to as the "VAX") to meet its Federal reporting requirements since 1984. Throughout this time, the VAX system has been modified to meet the new reporting requirements of the various Federal programs, including employment and training programs, and provided enhanced capabilities as well.

The previous JTPA tracking and record keeping requirements have driven how the State of Colorado has utilized the VAX system. We continue to successfully track WIA and other Federal programs on the system as well.

A. For expenditure reporting, which must be tracked under certain Federal programs by funding **year** and **subtitle of funds**, and in specified cases, by **cost category/budget line item** as well, changes in the following may be independently tracked and recorded in the VAX:

   1. Expense Budget Authority

   2. Obligations

   3. Disbursements

   4. Accruals

5. Match

6. Program Income and Expenses from Program Income

7. Stand-In-Costs

Changes in the above elements are both reported and recorded on a series of turn around documents generated by the CDLE through the VAX system.

Changes in elements 1 through 4, above, are reflected on the VAX Expense Report Form (VERF). When a Contract or Expenditure Authorization (EA) is awarded, the CDLE creates a VERF that indicates, in its coding, the type of funds (year and subtitle of funds) awarded. The VAX system assigns a unique "VAX number" to each VAX report created. The Expense Budget Authority (element 1 above), obtained from the Contract's/EA's/Budget Information Summary (BIS), is recorded by the CDLE in the VER, by cost category/line item, in the budget lines.

In addition, some grants/programs, such as the Workforce Investment Act Youth Program, require the reporting of expenditures by activity. If applicable, to allow subrecipients to report the activity expenditures separately, CDLE creates a separate VAX Activity Expense Report Form (VAERF) that lists each activity to be reported upon. The VAX number for the VAERF can be found in the "REF" field of the VER. Because the VAERF is used to capture expenditures by activity, they are not created from a BIS, and therefore, generally do not include budget amounts.

The VERF and VAERF (if applicable) are then sent to the subrecipient or are available electronically, if the subrecipient has on-line access to the CDLE's VAX system. Subrecipients with on-line access to the CDLE's VAX system can either print their own updated VERF and VAERF (see Attachment A for a sample of a VERF and Attachment B for a sample of a VAERF) for completion and transmittal to the CDLE or directly input their expenditures into the VAX system when the next reports are due. The CDLE encourages and highly recommends that all subrecipients with on-line access to the CDLE VAX system input their expenditures directly into the VAX system. Since the subrecipient is actually entering its own expenditures into the VAX system, it provides more accurate and timing reporting by the subrecipient and allows the subrecipient to immediately review its reported expenditures. Subrecipients with on-line access to the VAX system do not receive the hard copy turn around documents, such as the VERF and VAERF, from the CDLE. Subrecipient's that post their reported cost elements directly into the VAX system must print a financial record, usually a "**/PFB**", reflecting the posted cost elements. The subrecipient must then submit a copy of this financial record, the "**/PFB**", to the CDLE with an original signature and date of the authorized signatory. The authorized signatory is listed on the entity's authorized signature letter discussed in Section III, CASH. The CDLE will provide training to those subrecipients that wish to enter their own expenditures.

Subrecipients that don't have on-line access to the VAX or do not wish to directly input their expenditures shall use the VERF and VAERF to report, for each of the line items, obligations (if applicable), disbursements (monthly) and accruals (quarterly) (elements 2 through 4 above). The VERF and VAERF must be submitted with an original signature and date of the authorized signatory. The authorized signatory is listed on the entity's authorized signature letter discussed in Section III, CASH. After the CDLE has posted the subrecipient's reported cost elements, an updated VERF and VAERF can be instantly generated that reflects the subrecipient's costs reported to date and current budget availability. The updated VER and VAER are then transmitted back to the subrecipient for use in reporting the next month's costs.

Contracts with matching requirements (element 5 above), as indicated in the contract match BISs, are likewise reflected in the VAX Match Expense Report Form (VMERF) budgets in CDLE's VAX system. Subrecipients with contract matching requirements such as WIA 25% Discretionary funds for Innovative Projects, will report quarterly the match that they provided during the quarter using the VMERF. Similar to the VER, CDLE creates a separate VMERF for the required matching expenditure to be reported upon. When the VMERF is posted by the CDLE, the updated VMER will be transmitted to the subrecipients for their next quarter's report. Subrecipients with on-line access to the CDLE's system in the VAX shall print their own updated VMER for completion and transmittal to the CDLE when the next VMERFs are due. The VAX number for the VMERF can be crossed referenced on the "REF" of the associated contract VERF form.

Elements 6 and 7 above, program income and stand-in costs, are not governed by contract budget requirements, but are reportable quarterly and annually, respectively, when they occur. Program income and stand-in costs may be governed by certain cost limitations and are usually subject to the allowability requirements of the particular Federal grant. Program income expenses will be reported on a Program Income Expense Report Form (PIERF) and stand-in costs will be reported on a Stand-In Cost Report Form (SICRF). Generation of the VAX Stand –In costs reports will occur when the subrecipient notifies the CDLE of the incidence of either type of cost.

To ensure consistency among subrecipients with regard to the reporting and record keeping for each of the aforementioned cost elements, policies and procedures regarding expenditures reported to the CDLE can be found in Section II, EXPENDITURE REPORTING.

B. Cash is tracked on the VAX Cash Request Forms (VCRF). Each CDLE subrecipient will be issued a VCRF (in CDLE VAX database for contracts starting on or after July 1, 2005. The VCRF will reflect the entity's cash balances under each Contract/EA. As a new Contract/EA is awarded to a subrecipient, a new line item is created on the entity's VCRF with cash budget authority equal to the amount of the Contract's/EA's total budget. The VCRFs will remain active until the subrecipient has closed-out all of its grants under that VCRF with the CDLE. Program income cash is also tracked on the VCRF, if applicable, as will be explained in greater detail below with other cash policies and procedures in Section III, CASH.

C. By separately tracking expenditure components 1 through 7, above, and Federal cash as well as program income, an additional program benefit of the VAX system is that the following types of analysis can be performed through VAX reports to facilitate program management decisions:

BY <u>YEAR</u>, <u>TITLE</u> AND <u>COST CATEGORY/LINE ITEM</u>:

1. Budget Authority - Obligations = Unobligated Budget

2. Obligation - (Disbursements + Accruals) = Obligation Balance

3. Budget Authority - (Disbursements + Accruals) = Unexpended Budget Balance

4. (Federal Cash + Program Income) - Disbursements = Cash on Hand

5. (Federal Cash Budget Authority + Program Income) - Draws to Date = Undrawn Cash

II. EXPENDITURE REPORTING

A. SUBRECIPIENT ACCOUNTING SYSTEM REQUIREMENTS

With the charge of consistency in statewide Federal reports, other Federal programs' record keeping requirements, following standard industry practices and generally accepted accounting principles (GAAP), and further safeguard the Federal funds it administers, the CDLE provides the following policy and procedural guidelines for reporting costs under the CDLE contracts.

Subrecipients shall ensure that their financial systems provide at a minimum:

1. Fiscal control, including written, effective internal controls and accounting procedures that are actively used to safeguard assets and assure their proper use.

2. A comparison of actual expenditures with Contract budgeted amounts at least monthly. The CDLE requires that Contract/EA/BIS budget lines be recorded individually in the subrecipient's accounting records and that costs be posted against the budget lines, at least monthly, to ensure budget lines are not exceeded and that a permanent auditable record is maintained of actual contract costs.

3. A system for allocating joint or indirect costs between contracts (or subtitles if more than one subtitle is awarded through a contract) and cost categories/cost objectives within a subtitle. There are restrictions on which types of costs may be allocated to a program, cost category/cost objective in accordance with an applicable Federal and/or State statutory and/or regulatory guidelines. Allocation is not required, however, between years of funds, if multiple years of funding for a given Federal program are available simultaneously for the same purposes; the oldest funds should generally be used first (first-in first-out basis). The allocation system as a whole must be documented, consistent, and reasonable.

   One-Stop centers must describe how the cost of services and operating costs are funded within its One-Stop center's Memorandum of Understanding(s) (MOUs). In addition, One-Stop operators' must have a method of allocating costs, to ensure that each One-Stop partner bears its fair share of the costs of maintaining the center. See the Workforce Investment Act Memorandum of Understanding (MOU) and Cost Allocation Guidelines PGL #00-17-F1, dated June 20, 2000.

4. Source documentation to support accounting transactions, including, but not limited to:

   a. Request for Proposals (RFPs), competitive bids, contracts, purchase orders, and other documents to establish legal obligations;

   b. Staff time and attendance or activity records to support benefits received criteria;

   c. Staff allocation worksheets and supporting source data that document the distribution of staff costs among funding sources;

   d. Personnel action documents, that includes support for hiring, promotions, bonuses, and terminations;

e. A cost allocation plan that describes the basis and method for charging direct and indirect costs;

f. Travel reports;

g. Requisitions, purchase orders, receiving reports, invoices, vouchers, canceled checks and other payment documents; and

h. Journal entry documentation at the original transaction level that supports movement of the original cost(s).

B. ACCRUAL BASIS REPORTING

The CDLE's subrecipients are not required to maintain their accounting records under the accrual basis, however, it is strongly recommended since Federal reports are required to be reported on the accrual basis. The primary difference between the cash and accrual basis involves the timing of when revenue and expenses are recognized:

- In the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid.

- In the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when incurred.

- Under cost reimbursement accrual basis contracts, a dollar of revenue is earned when a dollar of allowable, reimbursable expenditure is incurred.

1. Conversion of Cash Basis to Accrual Basis of Accounting

Converting cash basis information in the records to the accrual basis is accomplished by making certain adjustments to the cash basis data.

In the accrual system, accrual adjustments are posted in the General Journal and then the General and/or Subsidiary Ledgers. As such, it is then necessary to record and post an entry that reverses the original entry, as of the first day of the new accounting (reporting) period. Prepaid expenses are amortized over the period in which they are incurred.

The alternative cash basis may be converted to an accrual basis in the working trial balance. This process is as follows:

a. Prepare a worksheet trial balance of the CDLE contract expenses derived from cash basis General and/or Subsidiary Ledgers.

b. Determine the necessary adjustments to reflect valid accrued expenses:

   i. Goods or services received but not yet paid (debit)

   ii. Salaries and wages from the last pay period that are earned but not yet paid (debit)

   iii. Employee vacation or sick leave earned during the period but not taken, if taken not yet paid (debit) (See Compensated Absence discussion below.)

   iv. Prepaid expenses, i.e., rent and insurance (credit for unincurred portion, if paid currently, or if paid previously, debit for portion incurred currently)

c. Post these adjustments in the adjustment columns on the working trial balance worksheet, and then add across each line on the working trial balance to obtain the adjusted accrued expense.

A new worksheet and appropriate adjustments must be prepared, at a minimum, at the calendar quarter-end when the CDLE VERFs and VAERFs are prepared to meet Federal requirements, which call for accrual basis reporting. This worksheet procedure eliminates the need to record original entries and their reversal in the General Journal, General Ledger, and Subsidiary Ledgers during interim accounting periods. At year's or contract's end, however, it is recommended that the formal posting procedure be used as to provide a permanent record of the year/contract accrual-basis, financial position (See PGL #02-20-WIA, Reporting Obligations and Accrued Expenditures for the further guidance).

2. <u>Compensated Absence Accruals</u>

Compensated absence accruals reflect an entity's legal liability for vacation or sick leave earned by the entity's employees, but not yet taken, or if taken, not yet paid. In that Federal reporting requirements call for accrual basis reporting, even cash basis subrecipients must manually adjust expenditures to report quarterly the Contract’s or EA's share of leave earned under the award but not taken.

Historically, many entities have recorded a balance sheet long-term liability for compensated absences with a corresponding entry to a balance sheet long-term asset account, typically entitled, "Amount to be Provided for Compensated Absences."

However, in order for compensated absence accruals to truly be considered "funded," the costs of leave is recognized in the period that leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the period of payment provided they are allocated as expense to all activities of the programs.

Further, in ongoing financial relationships, cash does not need to be drawn to maintain the "funded" status, because the reported expenditure will entitle the subrecipient to a commensurate cash draw when the disbursement occurs or the relationship is terminated, whichever occurs first.

In as much, if earned by the subrecipient's employees under the following circumstances, the allocable costs are reportable expenditures under the CDLE's Federal programs:

a. The net total amount accrued to date at quarter-end by the entity does not exceed the balances of authorized untaken leave at quarter-end at current authorized compensation rates; and

b. the leave was authorized under established written leave policies; and

c. the costs have been equitably allocated amongst all benefitting programs and activities, Federal and non-Federal; in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such programs and activities; and

d. the accounting basis has been applied consistently to each type of leave.

The CDLE recommends at a minimum, quarterly adjustments to accrued leave balances to establish the current liability to employees and to properly reflect accruals and also ensure that adequate budget availability will exist at the end of the contract or EA to cover allocable costs.

The accrued leaves to be charged or paid currently to expense should be allocated among benefitting programs in accord with the subrecipient's payroll cost allocation for the period.

If any portion of the current liability balance was not charged to the benefitting program(s) previously, and for whatever reasons, the allocable cost can not now be charged in whole to the benefitting program(s), and the cost can not be shifted to a non-benefitting Federal program. The Office of Management and Budget (OMB) Circular A-87 describes a "catch-up" method that distributes the cost over future periods to the benefitting programs.

The compensated absence accrual for each program should be accounted for separately in the subrecipients accounting records so that when the absence is taken and paid, the corresponding liability may be reduced. In addition, when a Federal program ends, the subrecipient may then draw the compensation absences cash balance for that program and place it in a separate account, such as an escrow account, for future payments.

Future cost of living increases for these previously funded compensated absence balances should be funded first through an interest bearing account, and then, if not available, a successor grant. If neither one of these options are available, then the subrecipient will have to fund the cost of living increases.

3. Equipment

a. Equipment purchased with CDLE provided Federal funds. Title to equipment purchased with CDLE provided Federal funds shall vest in the purchaser and call for the use of Generally Accepted Accounting Principles (GAAP), which for property purchases, generally varies depending on the type of entity making the purchase, to determine the proper accounting treatment.
As outlined in the OMB Circulars, there are different rules for:

(a) governmental, and
(b) nonprofit and higher education subrecipients.

Rules for each are based on the applicable OMB Circular depending on the type of entity. The applicable Cost Principle’s OMB Circular should be reviewed closely to determine the appropriate requirements and treatment of property purchases for your type of entity.

Implicit in OMB Circular A-87, Attachment B, 19, Equipment and other capital expenditures, governmental subrecipients, in (a) above, generally expense their equipment purchases to the benefitting grants when purchased. This holds true because most governmental subrecipients generally do not account for their Federal program grant funds in proprietary, internal service or trust funds, which are the only governmental fund types that depreciate their equipment and other capital expenditures (assets).

Non-governmental subrecipients, in (b) above, however, must not only distribute the expense between benefitting programs, but also over the useful life of the asset through depreciation. Depreciation is a method for equitable distribution of the original expense of the asset over time among benefitting users.

Depreciation methods generally allow for a much higher percentage of asset acquisition costs to be charged within a given year than available under Federally prescribed usage allowance rates (See b, Usage allowances). The rules regarding exclusions from the acquisition cost base, however, are the same as for usage charges and include the subtraction of the cost of any land and any costs previously borne by the Federal government or used as match from the base. After subtracting the exclusions, the balance of the original acquisition cost (or adjusted cost) is allocated over the asset's useful life through depreciation charges. **The straight-line allocation method must be used on CDLE funded grants, unless prior approval is obtained from the CDLE.** The calculated depreciation charge associated with an asset during a period is then allocated among benefitting funding sources. The total amount of depreciation charged over time by the entity to all sources, however, can never exceed the adjusted cost of the asset.

If a non-Federal or another Federal program's cash is used originally to purchase an asset that is then used under a CDLE funded contract, the other source's cash can be replenished through allocable depreciation charges to the CDLE funded grant. Similarly, if a CDLE funded project provides the cash to purchase an asset, it may also be reimbursed by other benefitting funding sources that use the asset. Such subdivisions of the expense related to an asset reduce the CDLE/Federal share in the asset (an asset disposition issue).

The accounting process, if the CDLE or one of its subrecipients fund the original purchase of an asset by a lower-tier non-governmental subrecipient, is very complicated. Such advance funding is only possible if the awarding agency's accounting system allows for cash draws separate from the reporting of expenditures. If such a system is in place, and it is at CDLE, Federal cash may be used by a non-governmental subrecipient to purchase an asset. The allocable expense of the asset would be charged in increments to the grant over the useful life of the asset through depreciation. If such a system is not in place, property may be purchased by an awarding governmental agency and loaned to a lower-tier non-governmental subrecipient, or, property purchases made directly by non-governmental subrecipients will need to be financed by a non-Federal funding source which can be compensated for benefits received by the Federal grant over time through usage charges (see b, Usage allowances, below).

Given that most asset lives are longer than the period of performance of the contract that they were purchased under, not all of the asset cost may be expensed by non-governmental subrecipients when the purchasing contract ends. Under these circumstances, if the subrecipient has a subsequent contract with the awarding agency that will benefit from use of the asset, the undepreciated balance may continue to be charged to the awarding agency through these contracts.

If the entity does not continue to contract with the awarding agency, cash advanced under the contract must be reconciled with allowable expenses when the purchasing contract ends. Any surplus of cash drawn will need to be refunded, or the asset must be relinquished to the awarding agency. If the asset is relinquished, the awarding agency must ensure that the subsequent user of the asset records the undepreciated balance on their books, upon receipt, if a governmental subrecipient, or through depreciation, if a nongovernmental subrecipient. The cash ramifications of asset purchases and transfers are discussed below in Section III, CASH, under part H, Property.

All depreciation charges to CDLE grants must, in accordance with the Cost Principle OMB Circulars, be documented by an entity-wide depreciation schedule. The useful life assigned to assets purchased under CDLE contracts must be consistent with that of similar assets and reasonable. Depreciation may not be charged if the cost of an asset has previously been fully expensed by the entity. If the cost of an asset has been partially expensed, the depreciation charges cannot exceed the undepreciated balance.

b. Usage allowances. If property was purchased with non-Federal funds and is used by a Federal program, a usage allowance may be charged to the benefitting Federal program to compensate the non-Federal source for the property's use. In most cases the property will have already been fully expensed by the entity, but if the asset still has an undepreciated balance, the entity may not allocate both depreciation and a usage charge to the same grant for the same asset.

Usage charges may not be expensed to CDLE funded contracts unless the assets were purchased with non-Federal funds, and then shall not exceed six and two-thirds (6 2/3) percent of the acquisition cost, annually, for equipment, or two (2) percent of acquisition cost (excluding the cost of the land), annually, for buildings. Any portion of the acquisition cost originally borne by the Federal government or used to meet a statutory matching requirement must be subtracted from the acquisition cost base against which the usage percentages are applied. The full usage rate cannot be charged separately to each grant, but rather the charge calculated at the specified usage rates must be allocated among benefitting grants.

There is no cap on the total amount chargeable over time through usage charges, as long as the asset is still providing a benefit. In as much, charges for use allowances must be documented by adequate property records. Physical inventories must be conducted at least once every two years to ensure that the subject assets exist and are usable and needed.

C. REFUNDS

Refunds shall be credited against the same cost category/budget line, title, subtitle and year of funds, (i.e., the same VERF line, that the cost generating the refund was posted to).

If the refund is received in a program year subsequent to the original cost's posting and the contract with the CDLE that was originally charged is still active, the subrecipient generally should <u>post the credit in the period in which the credit was received</u>. An exception may be made if the subrecipient's year-end is involved and the refund is material to the subrecipient's financial statements. Under these circumstances, a revised report for a specified period may be submitted to the CDLE to ensure that the CDLE's records agree with the final audited amounts. Or if the refund is large enough to potentially be significant to the CDLE's financial statements, an exception may be made whereby the CDLE may require a revised report to ensure that the CDLE's statements are presented fairly. The CDLE should be notified if any large refunds are received, to assess whether a revision is required.

If refunds are received by a subrecipient after the involved contract is closed-out by the CDLE, the subrecipient must revise closeout documents to reflect application of the credit to the grant costs. A revised VCRF and VERF must be included in the revised closeout package. The report must indicate which line(s) to credit for a total credit amount equal to the total amount of the refund. The subrecipient must enclose a check made payable to the CDLE for the amount of the refund.

D. OBLIGATIONS

Certain Federal laws and/or regulations and/or state policies and procedures may make provisions for unobligated funds in excess of certain percentage of a subrecipient's current year allocation to be recaptured from each subrecipient for reallocation. These provisions make annual reporting of obligations at the subrecipient level for those particular Federal programs necessary. For those Federal programs, the CDLE requires quarterly obligation reporting to track subrecipient progress toward meeting the stated obligation requirement and also to encourage ongoing record keeping in the area of obligations or encumbrances.

The U.S. Department of Labor's (USDOL) definition of obligation is "amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a funding period that will require payment by the grantee (recipient or subrecipient) during the same or a future period." (29 CFR Part 97.3) The CDLE's interpretation of the USDOL's definition of obligation includes the subrecipient's disbursed and accrued (billed but unpaid) amounts to date. In addition, it includes all unbilled balances under vendor contracts or purchase orders that contain the essential elements of a contract (i.e., parties, subject, terms, amount, and mutual agreement) and all unbilled portions of subrecipient contracts. The contracts or purchase orders must be in place prior to or on the report period end date and they must be legally enforceable for the amount obligated (See CDLE's PGL #02-20-WIA, Reporting Obligations and Accrued Expenditures for further guidance).

1. <u>Mid-Program Year Obligation Reporting</u>

   The purpose of mid-year reporting of obligations is to measure progress toward obligation of at least the required percentage of the current year's allocation by program year-end. As such, during the program year, subrecipients should include projected allocable in-house operating costs expected to be incurred by June 30 under the particular program in amounts reported as obligated. These projected in-house operating costs should be documented by the subrecipient's operating budget for the Program Year. Specifically, the subrecipient should report the otherwise unobligated programs portion of the in-house budget in addition to those elements outlined in the CDLE's interpretation above.

2. <u>Reporting At Program Year-End</u>:

On the June 30 report, however, staff salaries may not be obligated in advance, except to the extent that the subrecipient's personnel policy provides for a specified severance amount that the subrecipient would be legally bound to pay if the program ended on the last day of the program year. In general, any unexpended portion of the particular program's in-house operating budget not covered under the above definition or interpretation may not be included in amounts reported as obligated.

E. VAX EXPENSE REPORT FORMS (VERFs)/FINANCIAL RECORD REPORTS

As discussed in the financial system overview in Section I, the form that is used for subrecipient reporting of disbursements, accruals, and obligations is the VAX Expense Report Form (VERF). When a Contract or an EA under a Grant Agreement is awarded, a VERF or line item on a VERF will be created by the CDLE for each BIS associated with the award. Generally, CDLE contracts/EAs have only one BIS. To allow the subrecipient to report disbursements, accruals, and obligations for each budget line item on the BIS, there will be a corresponding description line item created on the VERF. The VERFs will be transmitted with the Contract/EA documents to the subrecipient upon award. The Catalog of Federal Domestic Assistance (CFDA) number for the Federal funds awarded under the Contract/EA can be found on each VERF. (See Attachment A for a sample VERF. See Attachment J for a listing of CFDA numbers).

Some grants/programs require the reporting of expenditures by activity. To allow subrecipients to report the activity expenditures separately, CDLE will create a separate VAX Activity Expense Report Form (VAERF) that lists each activity to be reported upon. The VAX number for the VAERF can be cross-referenced by using the "REF" field of the VERF. Because the VAERF is used to capture expenditures by activity, they are not created from a BIS, and therefore, generally do not include budget amounts. (See Attachment B for a sample VAERF).

Subrecipients with access to the State's VAX financial system can determine from the VERF hard copy, received with the contract, the "VAX number" to use in conjunction with the VAX print command "**/PCT**" to obtain the VERFs when needed for reporting. All other subrecipients will receive updated hard copies of their VERFs by mail or FAX after CDLE has input the previous month's VERF. Based upon the information reported by the subrecipient through the last period's VERF, the updated VERFs will reflect the current budget, disbursed, accrued, expended, and balance amounts in the "Total" columns to the left of the boxed-in "Current" reporting fields.

As stated previously in Section I., Statewide Financial Reporting System Overview, subrecipient's with on-line access to the CDLE's VAX system have the option of posting their reported cost elements directly into the VAX system and then printing a financial record report such as a **PFB,** using the print command "**/PFB**," that reflects the posted cost elements. The subrecipient must then submit a copy of this financial record, a **PFB**, in place of the VERF, to the CDLE with an original signature and date of the subrecipient's authorized signatory.

Subrecipients are required to submit monthly VERFs, VAERFs, or the financial record reports reflecting the posted cost elements, such as **PFBs**, to report disbursements under each active contract with the CDLE. If no expenses were incurred during the month, the subrecipient must still report, and record zero, "$0.00", expense for the period. Accruals and obligations should be reported quarterly. **VERFs, VAERFs, and PFBs are due to the CDLE monthly. Quarter ending months** (i.e., March, June, September, and December) **are due to CDLE by no later than the close of business on the 25th calendar day of the month following the month reported on** (e.g., the VERFs for the month of March are due by no later than April 25.). If the 25th day of the month falls on a weekend or holiday, the VERFs are due to the CDLE by no later than the close of business of the next business day. **Non-quarter ending months** (i.e., January, February, April, May, July, August, October, and November) **are due to CDLE by no later than the close of business on the last calendar day of the month following the month reported on** (e.g., the VERFs for the month of February are due by no later than March 31.). If the last day of the following month falls on a weekend or holiday, the VERFs are due to the CDLE by no later than the close of business of the next business day. Certain programs, circumstances, or subrecipients may require the CDLE to require certain VERFs to be submitted earlier. ***Failure to submit the VERFs on time may result in the implementation of corrective action(s) and/or sanction(s) upon the subrecipient by the CDLE.*** Faxed copies of VAX reports will be accepted, but are not substitutable for the required number of originals. The submitted original VERF, VAERFs, or financial records (**PFBs**) reflecting the cost elements, must have an original signature and be dated by the authorized signatory listed on the entity's authorized signature letter discussed in section III. CASH.

1. <u>Disbursements</u>

   Report all disbursements in the VERF's and VAERF's "Change-To-Disb." column. As indicated by the column's title, the net change in disbursements to date should be reported. Include in this column any expense amortizations, such as depreciation or the current increment of a prepaid expense.

2. <u>Accruals</u>

   Report accruals, at a minimum for the calendar quarter-end, in the "Change-To-Accrual" column. An incremental increase or decrease entry should be made so that the total accruals reported on the form (to date plus current) will match your total accruals at quarter-end. Include adjustments to compensated absence balances in this column.

Please note that the CDLE only requires accrual reporting on a quarterly basis, however, we do recommend, at a minimum, to reduce the accrued amount by any disbursements of previous quarter-end accruals to avoid interim double reporting on monthly reports.

3. Obligations

Subrecipients are required to report line item obligations quarterly, beginning with the mid-year (second quarter), on a current year and later allotments of a program. In subsequent program years, obligations will usually be reported for the current and the previous program years, etc. A separate VAX print command, **"/PCU"**, that provides total obligations reported-to-date and a field for subrecipient obligation reporting, should be used by the applicable program's quarter-end VAX Expense and Obligation Report Form (VEORF). (See Attachment C for a sample VEORF). As with disbursement and accrual reporting, the total obligations reported-to-date should be adjusted to reflect total obligations at quarter-end.

F. EXPENSE BUDGET MODIFICATIONS

The CDLE is subject to cost limitations by the Federal grantor agencies from which it receives funding. These limitations are disclosed in the applicable Federal statute(s) and/or regulation(s), or state policy guidance letter(s). The CDLE enforces the cost limitations, it is subject to, through the expenditure budgets it establishes in subrecipient contracts which, except as discussed below, can not be exceeded. As previously discussed, the line items contained in the contract BIS are reflected in the VERF budget line items when the contract is awarded.

Under certain contracts, however, the cost limitations are expressed in terms of both minimums and maximums. The purpose, therefore, of the line item budget is primarily to ensure that none of the maximums are exceeded. Because one of the maximums is the total amount of funds available, though, line item budgets may also be established with minimums. As such, if the total amount of funds available under a contract are not exceeded, and expenditures exceed a minimum budget while underspending a maximum budget by the same amount, the terms of the CDLE's grants with the USDOL are not violated. For example, the WIA Youth program will have a minimum 30% Out-of-School Youth and a maximum 70% In-School Youth budget line item. If the expenditures of the 30% Out-of School Youth exceed the 30% budget line item, and correspondingly, the 70% In-School Youth expenditures are underspent by the same amount, the CDLE grant with the USDOL has not be violated. For these reasons, there is room for some flexibility when a minimum budget needs to be increased without impacting the total budget.

In certain Contracts/EAs, certain budget line items/cost categories under a particular program may be expressed as minimum limitations. Transfers of budget authority **from any other budget lines items/cost categories** within contracts **to these minimum budget line items/cost categories** can be made informally, if the contract's scope of work is not impacted materially (<15% in the total number of participants served or of the total budget, etc.). **All modifications increasing budget line amounts, other than the minimum limitation cost categories, or changing any contract terms, (i.e., period of performance, scope, total contract amount, etc.), will require a formal Contract or EA modification.**

1. <u>Informal Modifications</u>

Informal budget modifications should be requested in a letter to the CDLE Monitor from the subrecipient's Director. The letter should indicate:

a. the VERF number,

b. the budget line item amounts that will be reduced and increased,

c. the circumstances giving rise to the needed transfer, and

d. whether any of the terms of the contract are impacted.

The letter should be submitted to the CDLE with the applicable VERF. The budget amounts on the impacted lines of the VERF should be lined through in red and the proposed amounts should be written in ink above each original budget amount. In addition, the submitted VERF, with the budget changes, should have the original signature and date of the subrecipient’s authorized signatory.

If the responsible CDLE Monitor determines that the conditions for an informal modification have been met, the modification will be made in conjunction with the month's posting.

2. <u>Formal Modification</u>

If any of the terms of a Contract/EA require modification [other than increases to the minimum cost limitation cost category/line item budget(s) as described under Informal Modifications above], a formal Contract/EA modification process must be followed. The process is different for EAs and Contracts. Under EAs, Workforce Regions must complete a modification package and obtain the Workforce Region's Director and the Local Workforce Board Chair's signature prior to the CDLE's approval. If the EA is greater than $100,000, the Locally Elected Official's (LEO's) signature is also required. Under Contracts, the contractor should contact their CDLE Monitor for instructions as soon as they are aware of the need for a modification, in that the Contract modification must be routed through the same State agency channels as the original contract and the process can take up to a month or more.

G. PROGRAM INCOME EXPENSE REPORT FORMS (PIERFs)

Program income is defined in 29 CFR 97.25 as "gross proceeds received by a grantee (recipient) or subgrantee (subrecipient) directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period".

Once program income (PI) is earned, the expenditure of the income may be subject to the same contract, regulatory, and statutory rules that the Federal funds that were incurred to earn the PI were subject to, with one exception. Generally, the only applicable cost limitation for PI is the administrative cost limitation. Further, if the PI is earned under a discretionary grant that was provided less than the statutory amount of administrative budget, with the awarding agency's approval, the subrecipient may be able to expend up to the maximum amount of administration allowable by law. The statutory administrative cost limitations may be found in the applicable program's law and/or regulations and/or state policy guidance letters. The program's law and/or regulations and/or state PGLs may allow the balance of the PI budget to be allocated among the remaining cost category(ies)/line items at the subrecipient's discretion.

If PI cash has been recorded on a line of the VCRF for the first time during a quarter (see Sections III.C. and III.J.4.), a Program Income Expense Report Form (PIERF) must be submitted to the CDLE for that line on a calendar quarterly basis thereafter. A separate PIERF must be submitted for each line of the VCRF that PI cash has been reported on. PIERFs are due to the CDLE by no later than the 25th calendar day of the month following the calendar quarter end.

The PIERF (see Attachment E) was designed to:

1. ensure that the amount of PI cash at quarter end is equal to the total PI expenditure budget, and

2. that the amount of administrative budget does not exceed the maximum allowed for the type of funding the PI was earned under.

The subrecipient should record its name in the space provided on the PIERF. The last day of the calendar quarter being reported on should be noted in the top right corner. The "CDLE Assigned VAX ER #" refers to the VERF number where cumulative budget and expense information for the generated PI is recorded by the CDLE. The CDLE will create a VAX report upon receipt of a new PIERF. The VAX PIERF will be sent to subrecipients after the PI is posted by the CDLE. Thereafter, the subrecipient should record the correlating four digits VAX number from the VAX report in the space allotted in the top right corner of the PIERF.

In section 1 of the PIERF, the subrecipient must record in the “FCS123” column of the “cash request line item” the six digit VAX line code from the “FCS123” column of the VCRF that PI has been reported on the VCRF. The PI "Net (Undisbursed) Amount" that is recorded by the subrecipient on the “cash request line item” of the PIERF should be the same amount of cash reported on the corresponding VCRF “FCS123” line as of the last day of the quarter. If subsequent VCRFs have recorded additional PI on this line, all amounts recorded after quarter end should not be included in the amount reported.

In section 2., the "Total Net (Undisbured) Amount" from Section 1 should be recorded on the "Total" line under the "Total Net PI Amount" heading. This total Net amount should be allocated by the subrecipient among cost categories/budget line items applicable to the type of funds involved. The subrecipient should record the appropriate “Cost Category”/“Budget Line Item” name in the left column, and the amount of Total Program Income to be allocated to the indicated category in the "Program IncomeAmount" column. The subrecipient can change the program income distribution in subsequent reports, provided the administrative budget is never exceeded.

Expenditures or costs incidental to the generation of Program Income must be reported on the PIERF in the Disbursed Program Income (Expended) column by cost category/budget line item. If no expenses were incurred during the quarter, the subrecipient must still report, but should record zero expense for the period. PIERFs must be signed and dated by an authorized signatory of the subrecipient.

The CDLE will post budget changes and any expenses reported for the quarter and then provide a copy of a PI VERF to the subrecipient.

If PI has not been fully expended as of the end date of the BIS/VER that it is associated with, the period of time that the Program Income may be retained and spent by the subrecipient may be extended under the following conditions:

1. The related BIS/VERF period was shorter than the State's period of availability for the Federal funds awarded therein, and the Federal funds are still active after the end date of the BIS/VER;

2. The subrecipient can and will continue to spend the funds under the same contractual, regulatory and statutory conditions that it was subject to while the BIS/VERF was active; and

3. The subrecipient can and will continue to report quarterly on expenditures of the PI until the PI is exhausted or the Federal funding period of the funds that were awarded under the related BIS/VER expire, whichever occurs first.

If each of the above conditions can be met, the CDLE will, as part of closeout proceedings on the Federal funds, deobligate on the VCRF any portion of the VERF budget not expended through the end of the contract period. The funds available on the VCRF line item will then equal the unexpended balance of PI. The PI VERF report "TO" date will be extended through the last date that the related Federal funds are available to the State. When the PI has been fully expended or the funds expire, PI closeout documents must be submitted in accordance with section IV. below. (If the PI is fully expended by the end of the related contract, the PI is closed out with the contract.)

Program income expenses must be included in the scope of independent audits of the CDLE provided funds.

H. VAX MATCH EXPENSE REPORT FORMS (VMERFs)

Certain Federal funds, by statute and/or regulation, require that expenditures be matched at a certain percentage by non-Federal funds. The match provided must meet the same regulatory and statutory provisions governing the Federal funds it matches. If subrecipient match expenditure is required, a Match BIS and narrative description of the match to be provided is required from the subrecipient. The Match BIS line item budgets are posted by CDLE into a VAX Match Expense Report Form (VMERF) that is sent to the subrecipient with the subrecipient's copy of the contract and related VERF(s) upon award.

The subrecipient must then use the VMERFs to report quarterly match provided under the contract. **VMERFs are due no later than the 25th calendar day of the month following the calendar quarter-end.** If the 25th calendar day of the month falls on a weekend or holiday, the VMERFs are due to the CDLE by no later than the close of business of the next business day. Certain programs, circumstances, or subrecipients may require the CDLE to require certain VMERFs to be submitted earlier. ***Failure to submit the VMERFs on time may result in the implementation of corrective action(s) and/or sanction(s) upon the subrecipient by the CDLE.***

The subrecipient can make VMERF budget changes if the total amount of match to be provided is not negatively impacted. The subrecipient should note such changes in red ink on the VMERF by lining through the budget amounts to be changed and recording the revised amounts in red ink above the old budget amounts. In addition, the submitted VMERF, with the budget changes, should have the original signature and date of the authorized signatory. If the total amount of match originally contracted for cannot be provided, the subrecipient must contact the CDLE for instructions.

Subrecipients with matching requirements must maintain sufficient supporting documentation to support amounts reported. Match reports and supporting documentation must be included in the compliance review under independent audits of funds provided by the CDLE. The VAX number for the VMERF can be crossed referenced on the "REF" of the associated contract on VERF.

I. STAND-IN COST REPORT FORMS (SICRFs)

Stand-in costs are costs paid from non-Federal sources that a subrecipient proposes to substitute for the CDLE funded costs that have been questioned as a result of an audit or other review. In order to be considered as valid substitutions, the costs:

Must have been reported to the CDLE by the CDLE subrecipient as uncharged program cost under the same year, title, and cost category/budget line item of funds <u>and</u> the costs must have been incurred during the same year in which the disallowed costs were incurred.

Must have been incurred by the entity with the questioned costs.

Must have been reported as incurred by the entity that has the questioned costs, i.e., subrecipient must have reporting systems in place for their lower-tier subrecipients.

Must have been incurred in compliance with laws, regulations, and contractual provisions governing the questioned costs.

Must have been included within the entity's audit scope.

Stand-in costs are a potential solution to future audit or monitoring issues and should be viewed by subrecipients as a form of insurance coverage for themselves, as well as their lower-tier subrecipients.

Under the Federal laws and/or regulations, stand-in costs are to be used prior to the establishment of a debt during the resolution phase.

Subrecipients should report stand-in costs used in lower-tier subrecipient audit or monitoring resolution as a credit under the appropriate title, cost category/line item and year of funds on (a) revised report(s) for the program year(s) affected. Stand-in costs accepted by the CDLE as part of resolution activities it conducts shall be deducted by the CDLE from the entity's reported stand-in costs for the program year when the disallowed costs were incurred.

The subrecipient Stand-In Cost Report Form (SICRF) can be found at Attachment F. This form must be submitted annually with the June 30 year-end reports.

The report is designed to capture a subrecipient's total stand-in costs during a program year, by title and cost category/budget line item. The subrecipient should record its name on the form and the program year-end date, i.e., 06/30/0X, for the Program Year (PY) it is reporting on. Total amounts of stand-in costs incurred during the PY should then be recorded under the appropriate grant name and cost category/budget line item headings. The report identifies the majority of the subrecipient grants that the CDLE has in place. In addition, the form has blank areas, for the subrecipient to record stand-in costs from other miscellaneous grants and cost categories/budget line items. The report must be signed and dated by the subrecipient's authorized signatory (see section III.B.4. below).

The information reported each year will be input by the CDLE into a cumulative VAX Stand-In Cost Report for each subrecipient. The report will include a line for each cost objective under which stand-in costs were reported by the subrecipient. After each year-end, the CDLE will provide an updated printout of each subrecipient's cumulative stand-in cost VAX report for the subrecipient's files.

III. CASH

A. METHODS OF PAYMENTS

1. Advances under the Cash Management Improvement Act

As previously stated, all subrecipient awards made by the CDLE are on a cost reimbursement basis, and as such, are entitled, subject to budgetary and other constraints, to payment for actual, allowable program costs. Subrecipients are further entitled to be paid in advance (although the reimbursement basis is preferred) for allowable program costs, provided subrecipients maintain or demonstrate the willingness and ability to maintain procedures in accordance with the Cash Management Improvement Act (CMIA) to minimize the time elapsing between the transfer of the funds and their disbursement.

The CDLE maintains that the cost reimbursement contracting method does not impede our ability to advance funds under the CMIA if proper controls are in place during the period of the award and if net cash advances are equal to allowable program costs when the award is closed out.

CDLE retains the right, however, to change the payment method from advance to reimbursement if the:

- Subrecipient does not demonstrate to the CDLE the willingness or ability to maintain procedures that will minimize the time elapsing between the transfer of funds by the CDLE and the subrecipient's disbursement of the funds in accord with the CMIA, or;

- Subrecipient's financial management system does not meet acceptable standards for internal control and accountability and the subrecipient has been classified as "high risk" by the CDLE, or;

- Subrecipient is classified as "high risk" for other administrative or programmatic reasons as determined by the CDLE.

This action will take effect upon written notification by the CDLE. The CDLE may revert back to the advance method after deficiencies have been corrected. See the CDLE's Corrective Action Policy Guidance Letter.

2. Reimbursement Payment Method (Generally, the preferred method)

Under the reimbursement payment method, subrecipients are entitled to monthly reimbursement of allowable costs incurred under the CDLE contracts. Payment will only be made in conjunction with submission, by the subrecipient, of a VERF for each Contract or EA for which reimbursement is requested on the VCRF (see Section III, J, FORMS AND PROCEDURES, below). Payment will only be made for amounts recorded as disbursed as of the report "to" date, as opposed to payment for total current expenditures, which would include amounts accrued. This payment method requires an additional funding source from which actual disbursements can be made during the month and prior to reimbursement from the CDLE.

3. Working Capital Advances

If the subrecipient or lower-tier subrecipient lacks sufficient working capital, the CDLE or the subrecipient’s awarding agency may provide cash on a working capital, advance payment basis. Cash may be advanced to the (lower-tier) subrecipient to cover its estimated disbursement needs for an initial period. **In no event may such an advance exceed twenty percent**

(20%) of the award amount. Thereafter, the awarding agency shall reimburse the subrecipient for its actual cash disbursements. The subcontractor should not receive additional funds until the advance is nearly expended. The working capital advance method shall not be used by subrecipients if the reason for using such method is the unwillingness or inability of the subrecipient to provide timely advances to the lower tier subrecipient to meet the lower tier subrecipient's actual cash disbursements.

B. CASH INTERNAL CONTROLS

1. <u>Bonding of Employees</u>

Adequate controls should be maintained to ensure that persons responsible for handling, authorizing, or processing financial transactions of Federal funds provided by the CDLE and persons responsible for property purchased with the CDLE funds are properly bonded, and that the bonding is continuous for the duration of the CDLE Contract(s)/EAs.

CDLE subrecipients shall obtain sufficient fidelity bonding insurance to cover any loss that may occur as a result of employee dishonesty or fraud including the misappropriation or stealing of Federal funds or property by theft, forgery, larceny or embezzlement. The subrecipient shall be the bond owner. The CDLE shall be the certificate holder. If the bond is canceled or reduced, the subrecipient shall immediately notify the CDLE. In the event the bond is canceled or revised, the CDLE shall make no further disbursements to the subrecipient until it is assured that adequate coverage has been obtained.

Different types of fidelity bonds available include:

- Blanket Bond covering all employees
- Position Bond covering the position bonded regardless of who occupies the position; or
- Name Bond covering only named employees.

Copies of current bonds must be submitted with the signature authorization for contracts beginning on or after July 1, 2001 (see Section III, B, 4, Authorized Signatories). Thereafter, and during each subsequent program year, any modifications made to the bonding agreement must also be provided to CDLE.

2. <u>Collateral Agreements</u>

Except as otherwise provided in this section, all CDLE subrecipients shall deposit Federal funds in a bank insured with the Federal Deposit Insurance Corporation (FDIC).

Subrecipients must maintain all funds in cash depositories that have FDIC insurance coverage. If the subrecipient is a unit of state or local government, and their account balances exceed the FDIC maximum coverage on deposits at any one financial institution, then all funds in excess of that insurance coverage must be collaterally secured in accordance with the Public Deposit Protection Act (PDPA) in C.R.S. 11-10.5-107(5). If the subrecipient is not a unit of state or local government, then all funds in excess of the FDIC maximum insurance coverage must be moved to other FDIC financial institutions until funds in excess of the FDIC maximum insurance coverage no longer exist. A written copy of the collateral agreement and copy of the collateral deposit receipt shall be obtained from the subrecipient's banking institution and maintained on file for monitoring and audit reviews.

Local governmental units receiving Federal funds through CDLE may deposit the funds in their treasury, but must be able to account for interest earnings in accord with the program income requirements outlined below in Section III.C.1.

3. Cash Forecasting Systems

The primary focus of the CMIA is to minimize balances of Federal funds maintained by Federal subrecipients while allowing the subrecipients to finance Federal programs with Federal cash. Under the terms of the act, subrecipients should have only as much cash on hand as is needed to cover their immediate cash needs. To do so, subrecipients should determine the average turnaround time between submission of VCRFs to the CDLE and actual receipt of the funds. This will enable subrecipients to time their receipt of cash to coincide more closely with the scheduled disbursement.

Projections of cash needs should not include accrued amounts, but only immediate cash disbursements. The CDLE recommends, at a minimum, cash forecasting based on the cash balance per books. The USDOL, however, has issued Financial Management Technical Assistance Guides (TAGs) that recommend that a valid pattern of checks being cleared by the bank is an acceptable method of cash forecasting.

Subrecipients should also work closely with their subcontractors in developing schedules for advancing funds that implement these principles while preventing accumulations of large cash balances over extended periods of time.

4. Authorized Signatories

Cash payments will not be made to CDLE subrecipients until an Authorized Signature Letter is received by the CDLE. This letter should indicate who, by name and title, is authorized to sign the VCRF, VERFs, and other forms requiring an authorized signature. Signature examples should be provided for each named signatory and the letter should be signed by the same individual that signed the Contract(s)/Grant Agreement(s) with the CDLE on behalf of the subrecipient. **A new authorized signature letter is required annually from each subrecipient and must be received by July 1 of each new program year. A signature letter for the applicable program year must be received by the CDLE prior to the first cash draw of that program year.** See Attachment L for the signature letter format that should be transferred to the entity's letterhead, completed, and original submitted to CDLE.

Effective July 1, 2001, a current bonding agreement must accompany the signature letter provided to CDLE (see Section III, B, 1, Bonding of Employees). **All authorized signatories must be bonded. A bonding agreement for the applicable program year must also be received by the CDLE prior to the first cash draw for that program year. Any changes in authorization should be indicated to CDLE by providing a new letter of signature authorization and/or bond modification.**

C. PROGRAM INCOME

As indicated in Section II, G, above, program income is defined in 29 CFR 97.25 as "gross proceeds received by a grantee (recipient) or subgrantee (subrecipient) directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period." The Federal program's laws and regulations may further delineate what is and is not program income and should be referred to for clarification.

29 CFR 97.21 requires that program income generated under Federal programs be disbursed before additional Federal cash is requested. This requirement suggests a dissociation between the source and use of cash that will assist subrecipients in complying with the CMIA.

The procedure for reporting the receipt of program income to the CDLE will automatically reduce your draw of Federal funds by the amount of program income, while increasing your total available cash for future draws. The program income cash is thereby used to fund the total cash needs for the period of the cash request. When cash is needed to fund program income expenditures (see the Program Income section of part II. above), the cash may be drawn in the same manner in which Federal cash is drawn.

1. Interest Income

Except for States, as defined in the CMIA, interest earned on Federal funds may be considered program income. As indicated in the Program Income 29 CFR 97.21, requests for cash advances from CDLE must be reduced by program income earned. In order to do so for interest earned, subrecipients that are not State agencies must have the ability to identify interest earned on the CDLE furnished Federal funds if those Federal funds include interest income as program income.

In such cases, the CDLE recommends that subrecipients keep a separate bank account to facilitate identifying interest earned associated with Federal funds. If a separate bank account is impractical, the subrecipient's accounting system must be able to provide information on interest earned on the Federal portion of funds.

It is strongly recommended that Federal funds be kept in interest bearing accounts; however, as a cautionary note, interest earned may be a factor used in monitoring excess cash. A subrecipient may choose to keep the CDLE funds in a non-interest bearing account only if a valid cost/benefit reason is demonstrated. Examples include:

- The subrecipient receives less than $120,000 in Federal awards per year; or

- Bank service charges for interest bearing accounts would consistently exceed interest earned on the CDLE's funds; or

- The best reasonably available interest bearing account would not be expected to earn interest in excess of $250 per year on Federal cash balances; or

- Those reasonably available depositories that pay interest require that an average or minimum balance of cash be maintained.

D. EXCESS CASH

There is no predetermined number of days of cash supply that is officially sanctioned by the Treasury, the USDOL, or the CDLE. However, any amount on hand that cannot be related to a valid cost, immediately due and payable, may be construed to be excess cash. If over-estimates are made, they should be offset as a credit on the next VCRF, when such request is to be initiated within a reasonable time period. If no immediate request is to be made, any excess Federal funds originally received from the CDLE should be returned by check to the CDLE immediately. A VCRF should accompany any cash returned, with the account codes to be credited in the amount of the check indicated.

E. REFUNDS

Refunds should be reflected on the appropriate contract or EA line of the VCRF as a credit when received. If the contract or EA is still active when the refund is received, the subrecipient should net the refund against current cash needs. If the refund is received after a contract has been closed-out, contact CDLE's Employment and Training Accountant to reinstate the applicable VCRF line item that the credit should be posted to. A revised VCRF will be forwarded to you or if you have access to the VAX, CDLE's Employment and Training Accountant will notify you when the VCRF line item has been reinstated.

F. UNCLAIMED CHECKS

When a subrecipient has (an) outstanding check(s) or warrant(s) at closeout, the subrecipient must cancel the individual check(s) or warrant(s) with their banking institution and submit an itemized listing of the unclaimed payments as part of the contract's closeout documents (see Attachment I and section IV. Closeout).

Reasonable bank charges associated with canceling the check(s) or warrant(s) may be charged to the grant, budget permitting, in a revised VERF. No changes should be made to expenses for the unclaimed amounts. A check, made payable to the CDLE, for the total amount of the canceled items, less any bank charges that were expensed to the grant in the revised VERF, should accompany the closeout documents. Closeout documents should reflect total expenses including unclaimed checks. Subrecipient clients or vendors named in the itemized listing may claim payments due from the CDLE for up to three years from the original check date at which point funds will be refunded to the USDOL.

Subrecipients may obtain waivers from this requirement from the CDLE upon submission of evidence of an oversight entity's escheat policy to which they are subject. Such evidence should be submitted to the CDLE's Controller. Waivers from the CDLE will be written. Any refunds from oversight escheat funds should be handled in accordance with the refund policy above.

G. PROPERTY

For governmental subrecipients, there are no complicating issues regarding the use of the CDLE provided cash for allowable property purchases. Cash is drawn to make the purchase and the expense is recorded when the asset is received. For non-governmental subrecipients, however, there are a number of issues that make accounting for property purchases very complicated.

As explained in section IIB3, under Equipment, non-governmental subrecipients must allocate the adjusted acquisition cost over the useful life of the asset through depreciation. If another funding source's cash is originally used to pay for the asset, and the asset is subsequently used by a CDLE funded project, the allocable portion of depreciation charges over the period of the asset's use could be charged to the CDLE funded grant. Cash drawn against the depreciation expense could then, in effect, refund the original funding source's cash.

If CDLE provided cash is used by a non-governmental subrecipient to purchase an asset, cash drawn by the subrecipient through the end of the contract may exceed contract expenses by the undepreciated balance of the acquisition cost of the asset. If the subrecipient has another CDLE funded contract that could benefit from use of the asset, that is active when the contract that purchased the asset is closed out, the second contract can "purchase" the balance of the asset's life from the first. The first contract's VCRF would be credited in the amount of the undepreciated balance of the asset's cost and the second contract's VCRF would be debited by the same amount. No check would be cut in this transaction, but the first contract's cash drawn to date would then reconcile with its expenses and the undepreciated balance of the asset’s cost would reduce the second contract’s cash availability. If the undepreciated balance is not eliminated through depreciation charges over the second contract's period of performance, the same process could involve a third contract, and so on, until the undepreciated balance is eliminated.

If the balance of an asset's cost can not be transferred to another contract with the same awarding agency when the purchasing contract ends (either because another contract does not exist or other contract(s) can not benefit from the asset's use), an excess of cash drawn over reportable expenses will exist at the contract's closeout. Under these circumstances there are two available options:

1. If the subrecipient wants to retain the asset and the awarding agency agrees, the subrecipient can reimburse the awarding agency for the undepreciated balance of the asset's cost. The VCRF would be credited in the amount of the refund. Cash drawn under the contract would then equal reported expenses.

2. If, however, the subrecipient does not wish to buy out the remaining portion of the asset's life and thereby retain the asset, the asset must be relinquished to the awarding agency. The awarding agency then must record an adjusting entry to the subrecipient's VCRF that credits the subrecipient for the undepreciated balance transferred. The CDLE funded entity that next uses the asset would then be charged through a debit to their VCRF for the undepreciated balance of the asset's cost. Again, no cash would actually be

transferred. This user would expense the balance of the asset's cost either immediately, if a governmental entity, or through depreciation, as described above.

H. WITHHOLDING PAYMENT ON CASH REQUESTS

The State shall establish such fiscal control as may be necessary to assure the proper disbursal of Federal funds. As a fiscal control, the CDLE retains the right to suspend funding, in whole or in part, to protect the integrity of funds or to ensure proper operation of programs.

Certain compliance issues may result in the CDLE withholding payment on a cash request. When a compliance issue is identified by CDLE and rejection of a cash request appears necessary, CDLE will contact the subrecipient in accord with CDLE's Corrective Action PGL. The subrecipient will be given the opportunity to correct the compliance issue under the terms of the Corrective Action PGL, in order to receive payment. Specific reasons for payment rejections shall include, but are not limited to:

No authorized signatures on file;

No, or unauthorized, signature(s) on the VCRF;

Lack of adequate bonding;

Delinquent monthly expenditure reports;

Delinquent audit reports;

Delinquent closeout reports;

Excessive funds on-hand as determined by the CDLE; and/or

Activities conducted by the subrecipient violate provisions of the Federal laws and regulations, this PGL, or an approved Plan, as amended, or contract, as amended.

If subrecipients are operating more than one CDLE Contract/Grant Agreement/EA and fail to meet reporting requirements of one CDLE Contract/Grant Agreement/EA, the CDLE may withhold funds for all, or a portion, of those subrecipient's Contracts/Grant Agreements/EAs.

The CDLE, however, will not withhold payment if the amount requested exceeds the balance available under a Contract or EA with the subrecipient, but rather, will reduce VCRF line item amounts requested to equal the amounts available. In no event shall cash drawn exceed the entire contract amount, even if the cash requested is to cover legitimate contract expenses.

I. FORMS AND PROCEDURES

Funds required under subrecipient contracts or EAs with CDLE may be drawn from CDLE on a VCRF. The VCRF will reflect available undrawn spending authority for each budget information summary (BIS) associated with each active contract or EA awarded to a subrecipient entity.

The VCRFs will continue to be used by subrecipients as long as active contracts exist between the individual subrecipient and CDLE. As contracts are closed-out, the budget lines will be coded by CDLE to not appear on VCRF printouts. This coding can, of course, be seen on VAX print command, “/PCT or reversed for historical reconciliations or the like.

1. Frequency and Timing

Funds may not be requested more often than weekly to meet immediate cash needs.

Workforce Regions may call in their cash requests on Monday before noon. Workforce Regions **must** follow-up called in requests for cash with submission of a signed VCRF (VAX print command, "**/PCN**") that reflects the same distribution and amount information conveyed by phone. Cash requests called in on Monday will be paid on Friday of the same week. Holiday exceptions to this schedule will be made known in advance.

Non-Workforce Region subrecipient VCRFs must generally be received at CDLE by Thursday to be included in the following week's processing cycle. **The VCRFs should be sent to the CDLE Controller’s Office, Reporting and Analysis Section, at 633 17th Street, Suite 1100, Denver, Colorado, 80202-3660.** Updated VCRFs with current undrawn balances will be mailed back to subrecipients on the Tuesday of the week in which their payment is processed. The new VCRF should be received on approximately the same day that the cash draw is deposited in the subrecipient's account.

2. Electronic Fund Transfers

To facilitate CDLE's adherence to the CMIA, CDLE requires that its subrecipients be paid through Electronic Fund Transfers (EFTs) between the State of Colorado's bank and the subrecipient's bank. Transferring cash in this manner enables CDLE to move cash requested by subrecipients out of our account to the subrecipients' accounts on the same day that it is received from the Federal government Payment Management System, and thereby minimize CDLE's cash-on-hand due to uncleared checks. EFTs are a recommended approach to cash management and should be used to the extent practical at the subrecipient level as well.

All subrecipients (except State of Colorado subrecipients) not receiving payment through EFTs will be out of compliance with the EFT requirement unless a waiver is received from CDLE. An EFT account set-up form is included as Attachment G. Waivers of the EFT requirement may be obtained only if adequately justified in writing. Waiver requests should be directed to CDLE's Manager of Reporting and Analysis.

3. Draws by State Agencies

State agency subrecipients of CDLE must, in accord with State Fiscal Rules, create an Inter-Governmental Transaction (IT) in the State accounting system to receive funds from CDLE. Only the amount field on the header screen needs to be completed by the subrecipient. CDLE will enter the appropriate account coding. A screen print of the IT, however, must be submitted with the VCRF. The IT does not replace the VCRF.

4. VAX Cash Request Forms (VCRFs)

On the VCRF ("**/PCN**") command, for those subrecipients on-line in the VAX, Columns A through E are provided for your information only (see example VCRF at Attachment D). Subrecipients will need to complete Column F through H to request payment from CDLE.

Column	Heading	Description
1st	FCS123	VAX line item code. (See Attachments J and K)
2nd	Description	State P.O. line item - VER number and Contract/EA end date (month/year) or description.
A	Spending Authority	Amount awarded to date including modifications.
B	Program Cash Needs	Net total projected disbursements requiring cash (including those related to program income) reported to date under this contract.
C	Program Income	Total net program income reported received by subrecipient to date (always a net credit balance). Actual program income expended will be adjusted for as a part of closeout by debiting this column for amounts reprogrammed or returned to the Federal government.
D	Cash Drawn	Total cash requested and paid to date.
E	Undrawn Cash	Current cash available for drawdown.

Column	Heading	Description
F	Program Cash Needs	Enter current projected cash needs, including those for program income.
G	Program Income	Enter any net program income received in the drawdown period as a negative number.
H	Current Cash Draw	Column F added to Column G. CDLE will pay the net amount in this column.

Please note that the amount of cash requested in H, per line, net of any program income reported for each line, cannot exceed 20% of the spending authority, or the award amount, if larger, for each line; so plan your draws accordingly.

The period of time for which cash needs are being projected should be recorded in the "from" and "to" spaces in the top left corner of the VCRF. The current period's report should always indicate a "from" date of the day following the last report's "to" date. "From" and "to" dates should never overlap with or leave a gap between the period of the VCRFs submitted immediately before or after the current VCRF.

IV. CLOSEOUT

A. GENERAL PROVISIONS

CDLE utilizes two major types of contracting documents, Contracts and Grant Agreements. CDLE's generally utilizes Contracts for Non-Workforce Regions subrecipients (contractors), while the Workforce Regions generally receive Grant Agreements and Contracts. Contracts generally stand on their own and appropriate only one program and program year of funds, while Grant Agreements, like Contracts, authorize only one program year of funds, but the EAs/VERs allow for the appropriation of multiple programs under a Grant Agreement. As such, the Closeout of a Contracts and Grant Agreements vary in certain ways.

1. Contract Closeout

For each Contract, all CDLE subrecipients must submit, no later than sixty (60) days after the end of a Contract, a completed and signed Grant Closeout Reconciliation Worksheet along with a Final VAX Expense Report Form

(VERF) and a Contract Closeout Package (see Attachment H for the Closeout Reconciliation Worksheet and Attachment I for a Contract Closeout Package).

2. <u>Grant Agreement/EA/VERF Closeout</u>

For each EA/VERF under a Grant Agreement, all CDLE subrecipients must submit, no later than sixty (60) days after the end of a Contract or an EA/VERF, a completed and signed Grant Closeout Reconciliation Worksheet and a Final VAX Expense Report Form (VERF) (see Attachment H for the Closeout Reconciliation Worksheet). In addition, for each Grant Agreement that had an EA(s)/VERF(s) that closed during that program year period of time, the subrecipient must submit, no later than 60 days after a program year (i.e., August 31), an annual Contract Closeout Package that includes all the EAs/VERFs that were closed during that program year period of time. For example, if a subrecipient had an EA/VERF that ended under a Grant Agreement during PY05 (from July 1, 2005 through June 30, 2006), then the subrecipient must submit, by August 31, 2006, a separate Contract Closeout Package for that Grant Agreement that includes the EAs/VERFs that were closed during PY05 under that Grant Agreement (see Attachment I for a Contract Closeout Package).

Near the end of each PY, CDLE will distribute to every subrecipient that program year's closeout instructions, forms, and Contract Closeout Package that need to be completed and submitted to CDLE by the stated deadlines. Each Contract Closeout Package must include the following completed and signed documents (see Attachment I for a closeout package with completion instructions):

Grant Closeout Signature Page

Grant Recipient's Release

Grant Closeout Reconciliation Worksheet(s)

Schedule of Unclaimed Checks

Contract Closeout Tax Certification

Grant Recipient's Assignment of Refunds, Rebates and Credits

Property Certification and Request for Disposition Instructions

CDLE will deobligate any unexpended balance of Federal funds upon receipt of the final VERF. Any excess of cash drawn previously over final expenditures should be reduced to equal expenditures by recording a credit in the amount of the excess on the entity's VCRF. If the subrecipient cannot net the credit against a positive draw on another contract, the subrecipient must refund the net credit amount on the VCRF by enclosing a check made payable to CDLE.

B. IF A BIS/EA/VERF END DATE OCCURS BEFORE THE CONTRACT END DATE

If a BIS/EA/VERF within a Contract/Grant Agreement ends before the Contract/Grant Agreement period of performance does, a final VER and a Grant Closeout Reconciliation Worksheet must be submitted within 60 days of the BIS/EA/VER end date. The remaining closeout documents should be submitted when the entire Contract/Grant Agreement is closed out.

C. IF PROGRAM INCOME WAS EARNED UNDER THE CONTRACT

1. If program income (PI) was earned under the contract and:

   a. the PY of funding under the contract expires on the last day of the contract, **or**

   b. all PI earned was expended before the contract ended,

   a Final PIERF should accompany the closeout package. Under the circumstances in a, above, if a balance of PI cash is indicated on line V.I.3. of the Closeout Reconciliation Worksheet, the cash must be remitted by CDLE to USDOL.

2. If PI was earned under the contract and:

   a. the PY of funding under the contract did not expire with the contract, **and**

   b. the PI was not fully expended when the contract ended,

   the subrecipient must submit separate closeout documents for **<u>all</u>** PI earned and expended, 45 days after all the PI has been expended, or the PY of funding has expired, whichever occurs first. Only Sections III, V, and VI must be completed on the Closeout Grant Reconciliation Worksheet when PI is being closed out. As indicated in 1 above, any remaining PI cash when the PY has expired, must be returned by CDLE to the USDOL

V. ACRONYMS

BIS	Budget Information Summary
CAB	Compensated Absence Balance
CDLE	Colorado Department of Labor and Employment
CFDA	Catalog of Domestic Assistance
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
EA	Expenditure Authorization
EFT	Electronic Transfer
FDIC	Federal Deposit Insurance Corporation
GAAP	Generally Accepted Accounting Principles
IT	Inter-Governmental Transaction
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
PGL	Policy Guidance Letter
PI	Program Income
PY	Program Year
PIERF	Program Income Expense Report Form (Attachment E)
SICRF	Stand-In Cost Report Form (Attachment F)
TAG	Technical Assistance Guide
USDOL	United States Department of Labor
VERF	VAX Expense Report Form (sample, Attachment A)
VAERF	VAX Activity Expense Report Form (sample, Attachment B)
VCRF	VAX Cash Request Form (sample, Attachment D)
VEORF	VAX Expense & Obligation Report Form (sample, Attachment C)
VMERF	VAX Match Expense Report Form
VPIERF	VAX Program Income Expense Report FormVSICRF VAX Stand-In Cost Report Form