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**COLORADO DEPARTMENT OF  
LABOR AND EMPLOYMENT**

**CORE MONITORING GUIDE  
WIRED PROJECTS**

**September 2008**

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# CORE MONITORING GUIDE WIRED FINANCIAL SUPPLEMENT

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## *Preface*

This is the Core Monitoring Guide that State staff will use to perform an in-depth review of financial and program WIRED activities and expenditures. This supplement, along with other supplements to the Monitoring Guide, constitute an important part of the Colorado Department of Labor and Employment's overall strategy to improve grant administration, specifically on-site monitoring of grantees. Combined, these guides will become an integral part of a grant management "tool-kit." Improving grant administration is a crucial element of the U.S. Department of Labor, ETA's and CDLE's grant management and the successful achievement of our Mission, Vision, and Guiding Principles is premised on the delivery of high quality, outcome focused job seeker and business services through effective financial agreements with the state and local workforce system organizations.

This *Monitoring Guide* focuses on the areas generally reviewed by both program and fiscal staff. It provides the additional questions and tools to perform the tests of systems and procedures that constitute an in-depth review of the administrative and financial management requirements that are applicable to most ETA/WIRED grant programs. The supplement also includes background resource material as a convenient and ready reference to the requirements in a number of areas. This will help to provide consistency in how we review and assess grantees and their adherence to those requirements.

For the most part, this supplement is *generic*, covering an examination of basic requirements that are found in most ETA grants, but specific questions have been included that may apply only to certain grant programs, such as formula grants, or to certain types of grantees, such as State level or discretionary grantees. In such cases, the questions are labeled to indicate this.

This guide is the outcome of many different individuals and offices within ETA working together to produce the best possible product to meet a diverse set of needs. The guide is intended to be continually reviewed and updated based on experience, practice, and changing requirements.

# GENERAL INSTRUCTIONS

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## *Introduction*

This FINANCIAL SUPPLEMENT to the *Core Monitoring Guide* (CMG) is intended to be used by fiscal staff as a component of an overall grant management strategy developed by each regional or national office responsible for grant oversight. Where the *Core Monitoring Guide* is designed for use by State and Federal Project Officers (FPOs) to monitor all core activities of grantees, the FINANCIAL SUPPLEMENT focuses only on activities 2 and 3, Program and Grant Management Systems and Financial Management Systems, which are generally the focus of financial and administrative review of ETA grants. For FPOs, the indicators and guidance in the CMG are designed to help the reviewer identify the attributes or criteria that attest whether the objectives or requirements are being met. A fiscal review probes deeper in certain areas, looking into policies, procedures and systems, and includes sampling, testing of transactions, and documentation in order to draw conclusions. The indicators and tools in the financial supplement are designed to facilitate such a review. The guide may be used to review ETA-funded grant activities.

Note: This review guide contains selected objectives and indicators pertaining to WIRED. Therefore, the numerical sequence of the objectives is not sequential (e.g., this guide jumps from Objective 2.1 to Objective 2.5).

### Workforce Innovation in Regional Economic Development (WIRED)

Generation	Total Amount	Year of funds
Generation I		
Generation II		
Generation III		

Some notes about the WIRED funds and grants:

- a. The grants are funded by revenue collected under the “American Competitiveness and Workforce Improvement Act of 1998” [Public Law 105-277]
- b. H-1B / WIRED funds have no administrative limit
- c. The WIRED funds are provided from DOL to the State agency.
- d. Some certain provisions apply to the expenditure of WIRED funds. Please see the ETA paper, “WIRED Initiative: Uses of the H-1B Funding Revenue”

## CORE ACTIVITY 2

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### *Program and Grant Management Systems*

*Program and grant management systems support grant functions or activities that are necessary for the operation of a project but are not related to the direct provision of services. These grant functions include personnel, administrative and oversight, management information, and reporting systems. Those functions NOT incorporated in Core Activity 3—Financial Management Systems—are incorporated herein. In addition, activities are included when their purpose is to ensure compliance with applicable statutory, regulatory, and grant requirements common to all ETA grants.*

### **CORE ACTIVITY 2 GENERAL INSTRUCTIONS**

The purpose of the Core Activity 2 monitoring component is to evaluate the grantee’s capacity to perform the broad management functions that are required when operating federally-funded workforce development grants. During this phase of monitoring, you will focus on program and grant management systems. Each objective focuses on a separate system or requirement and includes one or more indicators to assist in determining if the objective has been met.

To prepare for monitoring these core management functions, review the referenced authoritative citations that are in Appendix A. The appendix contains outlines of the compliance requirements that provide a quick reference for use in the field.

<b>Summary of Findings for Core Activity 2</b>	
<b>Promising Practices</b>	
<b>Findings or High Risk Factors</b>	
<b>Other Observations</b>	

**Objective 2.1 Administrative Controls:** Administrative Controls are sufficient to ensure grant integrity [29 CFR 97.40; 29 CFR Part 95].

- 2.1.1** The organization maintains policies and procedures for core management functions and program operations. **C**
- 2.1.2** Written monitoring tools and procedures are used to monitor all elements of the grant Statement of Work (SOW) against performance objectives and compliance with uniform administrative requirements. Monitoring tools and procedures are appropriate for subrecipient monitoring. **E**
- 2.1.3** The organization maintains written documentation including monitoring reports, findings, corrective actions, and resolutions for each grant monitored. **E**
- 2.1.4** Record retention policies that meet the requirements of applicable State and Federal laws and regulations are in place and followed. **C**

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- 2.1.1** The organization maintains policies and procedures for core management functions and program operations. **C**

***Interview the primary staff responsible for the development and issuance of policy.***

- What determines that a policy is needed? Are there areas in which the need for policy has not been addressed?
- What is the process for developing and issuing policies? Is it followed?
- Who is on the distribution list? How is the list developed and maintained?
- Are all the grantee policies currently in force included in the written record?

- Review the applicable policies to determine if they are adequate to meet the State and Federal requirements.
- How has the grantee ensured that subgrantees are aware of requirements imposed upon them by State and Federal statute and regulations?

**Sources and Notes:**

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- 2.1.2** Written monitoring tools and procedures are used to monitor all elements of the grant Statement of Work (SOW) against performance objectives and compliance with uniform administrative requirements. Monitoring tools and procedures are appropriate for subrecipient monitoring. **E**

*Review monitoring tools, e.g., protocols, manuals, & general instructions that relate to program monitoring. Compare these documents to the grant goals & applicable State and Federal requirements.*

- In terms of content, is the information reviewed in the monitoring tools aligned to both individual grant goals and the State and Federal requirements? If not, what is missing?
- Are the monitoring protocols and instructions clear and adequate to guide the monitoring process? Are the monitoring tools adaptable to all grants, or are there individual tools for each grant and subrecipient?
- How does the grantee develop its subrecipient monitoring schedule? Is it followed?
- Does there appear to be an assignment of risk to either subrecipients or to grants operated by the grantee? What is the basis for determining high risk/low risk levels?
- Are all elements of every grant and subgrant SOW monitored on at least an annual basis?

### Sources and Notes:

### **WIRED**

The recipient has a fiscal and administrative oversight role and strategy that provides reasonable assurances of proper grant activities and expenditures.

- 2.1.3** The organization maintains written documentation including monitoring reports, findings, corrective actions, and resolutions for each grant monitored. **E**

*Review all written documentation related to the grantee's monitoring activities, especially monitoring reports for the past year. Interview monitoring supervisor for clarification of any inconsistencies between the records and the information provided above.*

- Are there any discrepancies between the records and the monitoring process and tools that were reviewed above? If so, what accounts for those?
- Are corrective actions followed-up? Are there examples of how monitoring has led to corrective actions that either averted misuse of funds or resulted in improvements to program quality or efficiency?
- Is there a pattern in the records that shows:
  - Monitoring procedures were not properly followed or inconsistently applied; or
  - Other weaknesses in monitoring and oversight?

**Sources and Notes:**

**OBJECTIVE 2.5 Match And Leveraged Resources:** If applicable, policy and procedures to meet grant match requirements are met [27 CFR 95.23; 29 CFR 97.24]. When applicable, the organization provides for the use of leveraged resources.

- 2.5.1** Written policy and procedures that describe grant match requirements, allowable match, and methods for tracking match have been issued to all parties affected. **C**
- 2.5.2** When applicable, the organization maintains a system to calculate and track the use of leveraged resources. **E**
- 2.5.3** Records are available and demonstrate that match is being tracked. **C**

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- 2.5.1** Written policy and procedures that describe grant match requirements, allowable match, and methods for tracking match have been issued to all parties affected. **C**

*Review the grantee organization’s written policy and procedures for grant match and interview staff responsible for documenting match.*

- Does the policy address match requirements, costs and contributions allowable to meet match requirements, and methodology for tracking and documenting match?
- Does it appear that the written match requirement policy and procedures reflect actual grantee organization practice?

**Sources and Notes:**

**Note:** For the H1B funded projects, employer share of wages does not include fringe benefits.

*Evaluate Allowable Match Items. Based on the information, does the grantee comply with the appropriate requirements for valuing match contributions?*

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- 2.5.2** When applicable, the organization maintains a system to calculate and track the use of leveraged resources. **E**

*Review the grant to determine if the use of leveraged resources is required to support grant activity. Ask to review the process used by the grantee organization to determine the calculation of leveraged resources. Interview staff responsible for documenting the use of leveraged resources.*

- Does the organization have a written process to define and track the use of leveraged resources? If not, how does the grantee track their use?
- Does the organization appropriately report the use of leveraged resources in performance reports?

**Sources and Notes:**

**2.5.3** Records are available and demonstrate that match is being tracked. **C**

*Review financial records that document required match grant(s) being operated by the grantee organization.*

- Are costs and third party in-kind contributions that are being counted toward satisfying the match requirement verifiable from the financial records?
- Do records indicate the extent to which match is being tracked?

**Sources and Notes:**

*Check the Solicitation for Grant Applications (SGA) and/or the grant agreement to determine if match requirement exists. Evaluate Allowable Match Items to document your review of this indicator.*

- To what extent is the organization meeting its match requirements? How do they ensure that they bear the required amount of grant costs with non-federal dollars?
- How does the organization determine the fair market value (FMV) of third party in-kind contributions?
- To what extent is the organization tracking and including subrecipient match?
- Review the grantee's SF-424A and SOW for match proposals. Keep in mind that grantees are not only subject to the match requirements listed in Federal Register (FR) notices related to their grants but are also held to whatever *self-imposed* match requirements that they propose in their 424As.

**Note:** In most cases, it is *not* in the grantee's best interest to include match amounts beyond those required in FR notices.

**Objective 2.6 Equipment:** Grantees who purchase equipment with grant funds have a system in place, including written policies and procedures, to ensure it receives written approval prior to purchasing equipment. The grantee maintains a property management system in accordance with requirements [29 CFR 95.34 and 29 CFR 97.32].

- 2.6.1** The grantee has a system for the acquisition, management, and disposition of equipment purchased with grant funds. **C**
- 2.6.2** The grantee has sought and received approval prior to purchasing equipment and has written evidence of prior approval received for items of equipment it has purchased with grant funds. **E**

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- 2.6.1** The grantee has a system for the acquisition, management, and disposition of equipment purchased with grant funds. **C**

*Review the organization’s policies and procedures on purchasing, managing, and disposing of equipment.*

- Do they have policies and procedures? If not, how do they comply?
- Does the organization maintain an inventory of equipment purchased with ETA funds?

*The requirements for use, management, and disposal of grant-purchased equipment for nonprofit and commercial organizations are found at 29 CFR 95.34 and for local government agencies at 29 CFR 97.32(c) through (e). For states, whether a recipient or subrecipient, 29 CFR 97.32(b) requires that it use, manage, and dispose of grant-purchased equipment in accordance with its own laws and procedures.*

*Obtain a copy of those procedures and determine if the grantee is following the process as prescribed. Obtain a copy of the grantee’s inventory of equipment. Use the background resource on property for reference and answer the following:*

- Does the grantee acquire, use, manage, and dispose of grant-purchase equipment in accordance with its own laws and procedures? Do the grantee’s procedures comply with the State and Federal requirements?

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### Sources and Notes:

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- If equipment was purchased or leased, did the grantee make a determination of the best option (lease or purchase)? [See also Objective 2.7 Procurement]
- Is the equipment being **used** by the grantee or subgrantee in accordance with the program for which it was acquired?
- If not, how is it being used?
- Does the equipment inventory include all required elements?
- Has a control system been developed to ensure adequate safeguards to prevent loss, damage, and theft of the property?
- Does the entity (other than states) have a disposition procedure that includes all necessary elements? Are disposition instructions obtained from DOL when property with a fair market value in excess of \$5,000 is no longer needed for purposes for which it was acquired?

**Note:** When looking at property disposition procedures, review for treatment of aggregate supplies of \$5,000 or more, or the local disposition procedures if more restrictive, at the time of closeout.

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- 2.6.2** The grantee has sought and received approval prior to purchasing equipment and has written evidence of prior approval received for items of equipment it has purchased with grant funds. **E**

*Ask the organization how and when it obtains approval for purchasing equipment. Request evidence that the organization has sought and received written approval prior to purchasing equipment. Document their responses to your inquiries and the extent to which they are in compliance with this indicator.*

- How and when does the organization obtain approval for the purchase of equipment?

### Sources and Notes:

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- For capital leases of equipment, has prior approval been received?

**Note:** For discretionary programs, prior approval must come from the DOL, Grant Officer. For formula programs, prior approval requirements are specified in the grant agreement or the applicable regulation.

### Sources and Notes:

**Objective 2.7 Procurement:** All procurement actions are conducted in a manner that provides for “full and open competition” [29 CFR 97.36; 29 CFR 95.40-48].

- 2.7.1** The organization follows its own procurement procedures which reflect applicable state and local laws and regulations, provided that its procurements conform to applicable State and Federal laws and standards. **C**
- 2.7.2** The organization maintains a system for the administration of contracts, including appropriate contract or subrecipient clauses. **C**
- 2.7.3** Reasonable profits paid to a commercial organization are negotiated separately as a dollar amount. **C**

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- 2.7.1** The organization follows its own procurement procedures which reflect applicable state and local laws and regulations, provided that its procurements conform to applicable State and Federal laws and standards. **C**

*Ask for a copy of procurement rules or other written guidelines that are used in the procurement of both goods and services. Interview staff or members who are familiar with procurement requirements.*

- Does the organization have written procurement policies and procedures?
- Do the organization’s procurement policies and procedures conform to applicable rules and regulations?
- How does the organization assure that it conducts procurement activities in a manner to ensure full and open competition? Document your observations of the extent to which the organization appears to use full and open competition to procure its goods and services.

**Sources and Notes:**

- Does the organization have a code of conduct policy in place? Does it include signed “Conflict of Financial Interest” statements from local board and youth council members as well as individuals involved in the procurement process?
- View a sample of contracts. Do the contracts include the signatures and dates of the authorized parties and specify duration and award amount?
- Do the organization’s procurement procedures include all of the required elements and are they in compliance with all of the applicable State and Federal and state requirements? Review the Procurement Award Process.

**WIRED**

- Which organizations are official WIRED partners?
- Which organizations listed as partners receive WIRED funds?

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- 2.7.2** The organization maintains a system for the administration of contracts, including appropriate contract or subrecipient clauses. **C**

*Interview staff or members who are familiar with subgrant or subcontract processes. Ask for a copy of required contract and/or grant clauses.*

- Does the organization have a boilerplate contract or subrecipient format?
- Are the required clauses included?

### Sources and Notes:

- Who is designated to be responsible for procurement actions?
- Who is responsible for signing agreements?
- Are these authorized individuals?
- Are there authorizing documents?

**Note to reviewer:** Lack of separation of duties could result in an internal control weakness.

*Based on a sample tested, does the organization maintain a system of administration sufficient to ensure compliance for each of the following topics:*

- Acquisition Planning
- Determination of Needs
- Selection Methods [as described at 29 CFR 97.36(d)]
- Cost/Price Analysis
- Evaluation
- Award
- Procurement File Documentation
- Agreements (type & content)
- Tracking/Performance
- Payment

- 2.7.3** Reasonable profits paid to a commercial organization are negotiated separately as a dollar amount. **C**

- Is profit recognized in whole dollars (not as a percentage of cost) and reasonable in terms of the services rendered or goods provided?

**Note to Reviewer:** The Federal Acquisition Regulations (FAR) suggest that profit on governmental contracts for services not exceed 10%.

**Note:** Profit should be negotiated as a separate budget line item and should not be earned on the basis of the contract award amount.

- How did the grantee determine the amount of profit to be earned under the contract?  
Risk factors include:
  - Complexity of work
  - Risk borne by contractor
  - Contractor's investment
  - Amount of subcontracting
  - Record of past performance Industry profit rates in the geographic area for similar work
- Is the determination appropriate to the nature of the agreement, e.g., fixed price, performance-based, cost reimbursement, etc.?
- Are the amounts paid consistent with the terms of the agreement?

**OBJECTIVE 2.8 Audit And Audit Resolution:** The organization has a system in place for an audit of financial activity in accordance with the provisions of OMB Circular A-133, if applicable. The organization maintains an audit and audit resolution process, including debt collection in accordance with Federal grant requirements [29 CFR 99.200; 29 CFR Part 96; 29 CFR 95.20; 29 CFR 97.20].

- 2.8.1** The organization maintains a system for audit in compliance with OMB Circular A-133. **C**
- 2.8.2** The organization has a system in place to assure subrecipient audits are conducted and resolved. **C**
- 2.8.3** The organization is aware of and has met the financial system requirements, including established processes for debt collection **C**

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- 2.8.1** The organization maintains a system for audit in compliance with OMB Circular A-133. **C**

*Organization-wide or program-specific audits must be conducted under the auspices of OMB Circular A-133, which implements the Single Audit Act, when total Federal expenditures are \$500,000 or more for an organizational fiscal year ending after December 31, 2003. Interview appropriate staff and document their response. If the organization had an audit done, and questioned cost or findings arose as a result of the audit, obtain a copy of the organization’s audit report. If applicable, obtain a written status report of the questioned costs and/or findings.*

- Is the organization aware of the audit requirements?
- What is the latest period for which an audit was conducted?
- Was the latest audit organization-wide (A-133) or program-specific?

**Sources and Notes:**

*Obtain a copy of the entity’s most recent audit report. It may be helpful to query the [www.harvester.census.gov](http://www.harvester.census.gov) website to see if the entity filed its most recent single audit. Based on the report, answer the following questions.*

- Was the audit completed in a timely manner (no later than nine months after the end of the entity’s fiscal year)?
- Examine the section of the audit report called “Schedule of Findings and Questioned Costs”:
  - Are material weaknesses identified?
  - Are reportable conditions identified?
  - Are federal award findings identified?
  - Are federal award questioned costs identified?

If you answered yes to any of the above, what is the current corrective action plan employed by the agency to resolve these matters?

- Does the organization revise its financial status report, if necessary, based upon the expenditure amounts identified in the audit report?

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- Does the organization have a clear understanding of 'stand-in' costs?  
Consider:
  - Are they recorded in the books of account?
  - Are they reported on the financial status reports?
  - Are they included in the scope of the audit for the period in which they were incurred?
  - If stand-in costs are used, does the organization have sufficient documentation to support stand-in costs and is this readily available for review by DOL?
- How long has the organization employed the existing audit firm for the work related to the OMB Circular A-133 Audit Report?
- When does the organization expect to re-solicit its auditing services? What procurement method will be used to secure the services of a new auditing firm?

- 2.8.2** The organization has a system in place to assure subrecipient audits are conducted and resolved. **C**

*Organization-wide or program-specific audits must be conducted under the auspices of OMB Circular A-133, which implements the Single Audit Act, when total Federal expenditures are \$500,000 or more for an organizational fiscal year ending after December 31, 2003. Interview appropriate staff and document their response. Review documentation that would support the answers below (tracking system, audit reports, contract requirements).*

- How does the organization determine the need for audits of subrecipients?
- What processes are followed to resolve subrecipient audit findings?

**Does the organization have a tracking system in place to ensure that all required subrecipient audits are received in a timely manner and resolved in accordance with audit requirements?**

**Sources and Notes:**

*Use this information to determine the following:*

- If applicable, has the organization obtained an audit report from its subrecipients?
- Does the grantee review audits for adequacy and compliance with A-133 requirements?
- Review a sample of the subrecipient audits and resolutions.
  - Are findings resolved adequately and in a timely manner?
  - Was an appropriate appeals process followed, if applicable?
- As part of its monitoring responsibilities, does the organization follow up with the proposed corrective action on outstanding audit findings?
- Does the subrecipient revise its financial status report, if necessary, based upon the expenditure amounts identified in the audit report?
- Are audit report findings and their resolution considered as a selection factor when extending or issuing a contract to a current or new subrecipient?

**Note to Reviewer:** Commercial subrecipients who spend more than the minimum expenditure level specified in OMB Circular A-133 are required to have either an organization-wide or program-specific audit conducted in accordance with A-133 requirements. Commercial *direct recipients* are audited at the discretion of the Secretary.

- 2.8.3** The organization is aware of and has met the financial system requirements, including established processes for debt collection **C**

*Ask the financial staff what procedures are in place to establish a debt, when necessary, and what procedures are in place to recover an established debt.*

- Does the organization have procedures to establish a debt when necessary with a subrecipient, contractor, or another other organization?
- Does the organization have procedures in place to ensure debts are collected?
- Does the organization have policies concerning writing off debts (receivables)?

**Sources and Notes:**

**OBJECTIVE 2.11 Facilities And Other Capital Assets, including State Workforce Agencies (SWA) [formerly, State Employment Security Agency (SESA)] Real Property:** Grantees who pay facilities costs and other capital assets costs with grant funds have a system in place to ensure that costs are reasonable and allowable under the cost principles, and are charged to grants based on benefit received; that cost of operations and maintenance and space costs billed to the program are equitable, based upon usage/occupancy; that idle space is not billed to the program; that only depreciation or use allowance costs are charged if capital leases are used, or if property is owned by the entity or related parties [29 CFR 97.31, 29 CFR 95.32, TEGL 7-04, TEGL 3-07].

- 2.11.1** The grantee has a system in place to assure that facilities and space-related costs (e.g., operation and maintenance) are reasonable, allowable and allocable to the grant or grants charged, in accordance with State and Federal requirements. **C**
- 2.11.2** The grantee has a system in place to assure that amounts charged to the grants capital leases, less than arms length transactions, grantee owned facilities, and capital improvement projects are limited to the cost recovery using the use allowance or depreciation methods (based upon the percentage of program occupancy). **C**

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- 2.11.1** The grantee has a system in place to assure that facilities and space-related costs (e.g., operation and maintenance) are reasonable, allowable and allocable to the grant or grants charged, in accordance with State and Federal requirements. **C**

**Sources and Notes:**

*Review the organization’s policies and procedures for charging costs for space and related costs. Related costs can include operations and maintenance, such as grounds upkeep, janitorial, repairs, security, parking, etc. Review charges to the grants for space and facilities.*

- Is the entity charging space rental, lease cost or other related facilities costs to the grant?
- Do they have policies and procedures? If not, how do they assure compliance?
- Does the grantee have a system to make a determination of the best option for its facilities (lease versus purchase)?

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- Is all space paid for by the program being used strictly for the program?
- If not, is a fee collected from the other occupants of the property?
- Is there any rental or lease deposits? If yes, how are the deposits tracked in the books of account? These deposits should be booked as assets. They should be accounted for at closeout and can move from one grant to another where there is continuous funding, or they should be returned to the grant.
- Is the program only paying for its fair share of the space costs based upon occupancy?
- If there is a lease, is there a provision to terminate the lease if grant funding expires?
- **Sources and Notes:**

- 2.11.2** The grantee has a system in place to assure that amounts charged to the grants capital leases, less than arms length transactions, grantee owned facilities, and capital improvement projects are limited to the cost recovery using the use allowance or depreciation methods (based upon the percentage of program occupancy). **C**

*Determine the ownership of the building occupied by the grant program. Obtain grantee records of occupancy and all occupancy-related costs. Use this information to answer the questions in this section if there is a capital lease, the lessor is a related party, or the grantee owns or is purchasing the building. If the grantee has paid or is paying for capital improvements outside of the lease agreement, you should determine if the grant is being charged appropriately.*

- Are annual facilities costs held to a use allowance not to exceed two percent (2%) of the total cost of the property, including interest, or has a depreciation schedule been set up to determine the allowable rental costs based upon the useful life of the facility?
- If the facility has been fully depreciated using federal grant funds, are costs limited to operations and maintenance?

**Note to Reviewer:** for buildings where there has never been a depreciation or use allowance charged to the federal grant, the charging of a use allowance not to exceed two percent (2%) of the original acquisition cost is permitted.

- If costs of capital improvements are charged directly to the grant, was prior approval or waiver requested and approved by higher tier or by DOL, as appropriate?
- If not specifically approved by DOL or not part of tenant improvements, is the total cost of the capital improvement depreciated over the useful life of the improvement?

**Objective 2.12 Intangible Property.** The grantee’s system for the acquisition, management, and disposition of intangible property (copyrights, inventions, data, patents and software) is sufficient to assure compliance with requirements [29 CFR 97.34; 29 CFR 95.36; OMB Circular A 87, Attachment B.38].

- 2.12.1** The grantee has a system for the acquisition, management, and disposition of intangible property (copyrights, inventions, data, patents and software). **C**

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- 2.12.1** The grantee has a system for the acquisition, management, and disposition of intangible property (copyrights, inventions, data, patents and software). **C**

*Intangible property must be used for the grant or grants from which the funding comes, but the acquisition of the intangible property does not require prior approval. The treatment of intangible property is broadly addressed only in 29 CFR Part 95.36 for non-governmental entities; 29 CFR Part 97.34 addresses only the issue of copyrights for governmental entities. Common occurrences of intangible property under our grants are the acquisition or development of software systems, and development of research data.*

*TEGL 31-04 addresses the issue of the Federal grantees being charged royalties by private entities for the use of software originally developed with Federal funds. This is generally not allowable unless the Federal funding agency has given up its right to title to the license. The Department of Labor has not ever given up its rights for software or other intellectual property developed under our grants.*

- Does the grantee have policies and procedures covering intangible property? If not, how do they ensure compliance?
- Has the grantee acquired or developed any intangible property with grant funds?
- If so, is grant-funded intangible property being used strictly for the program? If usage is shared, see Objective 3.4 Cost Allocation.

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- If grant funds are used to pay a vendor to produce or acquire intangible property for grant use, does the agreement ensure that the grantee retains the right to continued use?
- Is the grantee selling a product (e.g., software) produced with grant funds, or charging a license or use fee, to other Federal grant recipients?

**Note:** this is not allowable unless the costs charged are limited to recovery of the additional costs incurred to provide the product to the buyer (such as shipping, copying, maintenance, etc.). Other recipients of Federal funds should be given the right to use the product without any additional charges to Federal grant funds.

- [For Part 95 grantees only] Do the grantee's policies and procedures for disposition of property no longer needed for its original purpose comply with the provision at 29 CFR 95.34(g)? **(C)**
- Do governmental grantees have procedures in place for disposition of intangible property?

## CORE ACTIVITY 3

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### *Financial Management Systems*

*Financial management systems are part of the overall administrative systems that support grant functions or are those activities necessary for the operation of a project but not related to the direct provision of services. The standards for financial management systems are in 29 CFR 95.21 and 29 CFR 97.20.*

### **CORE ACTIVITY 3 GENERAL INSTRUCTIONS**

The purpose of the Core Activity 3 component is to evaluate the grantee's capacity to perform the financial management functions that are required when operating federally-funded workforce development grants and assure the proper safeguards are in place to protect grant assets. During this phase of monitoring, you will focus specifically on the financial management systems that relate to budgets, cash management, program income, cost allocation, allowable costs, internal controls, and financial reporting. If further review of any of these systems is necessary based on your findings, obtain copies of the documents relevant to your findings to share with the Office of Systems Support or the Division of Fiscal and Grants Management Policy and Review staff as appropriate.

To assist reviewers in determining the answers to multiple objectives in Core Activity 3, three new tools have been developed. The information in these tools is gathered once, but is used to answer questions in a number of different objectives such as Objective 3.4 Cost Allocation, Objective 3.5 Allowable Costs, and Objective 3.9 Cost Classification.

To prepare for monitoring these financial management functions, review the referenced authoritative citations that are in Appendix A. Appendix B also includes a list of definitions related to grant activities and Appendix C outlines allowable costs in the OMB Cost Principles Circulars.

<b>Summary of Findings for Core Activity 3</b>	
<b>Promising Practices</b>	
<b>Findings or High Risk Factors</b>	
<b>Other Observations</b>	

**Objective 3.1 Budget Controls:** The organization has a method for tracking planned expenditures that allows it to compare actual expenditures or outlays to planned or estimated expenditures [29 CFR 97.20(b)(4); 29 CFR 95.21(b)(4)].

- 3.1.1** The organization has an approved budget that is compared to actual expenditures on a regular basis (i.e. quarterly) to determine if it needs to modify its budget. **C**

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- 3.1.1** The organization has an approved budget that is compared to actual expenditures on a regular basis (i.e. quarterly) to determine if it needs to modify its budget. **C**

*Interview the staff primarily responsible for modifying the budget and comparing budgeted to actual expenditures. Review the organization's most current approved budget. Cross reference to Objective 5.1 to answer as needed.*

- Does the organization have a current approved budget?
- How does the staff compare actual costs to budgeted costs to ensure that the program operates within the budget and the organization submits budget modification requests in a timely manner?
- Has the organization done a recent planned versus actual cost analysis?
- Does the organization have a method for ensuring that obligations do not exceed availability?

#### Sources and Notes:

*In addition to answering the questions below, use the SF-424A and the data in the grantee's books of account to perform a budget-to-actual comparison.*

- What process does the organization use to tie the account codes used in its internal accounting or budgeting system to the budget categories specified in the grant agreement or contract that it has with the state, Department of Labor, or other entities?
- [For discretionary grants only] Does the budget narrative include an adequate explanation of the actual line item costs in the SF424A, including modifications? (See grant clause for budget line item flexibility requirements.)
- Based on the analysis of budget-to-actual, are the items of cost included in appropriate budget line items?
- Are managers regularly informed of changes in the budget or given routine updates comparing budgeted items to actual costs?
- Are budgets established in conjunction with program delivery and performance goals?
- What procedures are in place to handle significant fluctuations in program budgets or spending?
- If indirect costs are included on the SF424A, what documentation supports those costs? See also Objective 3.4 Cost Allocation.

**Objective 3.2 Cash Management:** The organization's cash draws are necessary and reasonable, and the timing and amount of such draws appear to be as close as possible to the actual disbursement of grant funds for the payment of allowable and allocable costs incurred by the grant [29 CFR 97.20(b); 29 CFR 95.21(b)(4) & (5) & 95.22].

- 3.2.1** Grant recipients have a mechanism in place, including policies and procedures, to minimize the time between the transfer of funds from the U.S. Department of the Treasury and disbursement of funds to pay allowable costs. The grantee draws cash as close to the time of making disbursements as possible. If applicable, grantees monitor the cash management activities of their subrecipients to ensure that the subrecipients conform to the same standards of timing and amount that apply to the grantees. **C**
- 3.2.2** Grant recipients have mechanisms in place, including policies and procedures, to ensure accountability over other cash related activities. **C**

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- 3.2.1** Grant recipients have a mechanism in place, including policies and procedures, to minimize the time between the transfer of funds from the U.S. Department of the Treasury and disbursement of funds to pay allowable costs. The grantee draws cash as close to the time of making disbursements as possible. If applicable, grantees monitor the cash management activities of their subrecipients to ensure that the subrecipients conform to the same standards of timing and amount that apply to the grantees. **C**

*Review the organization's policies and procedures on cash management. Ask the organization for a summary of its drawdowns and expenditures for one month. Compare their drawdowns for one month to their expenditures for the same month. Document the organization's responses to your inquiries, the extent to which they are in compliance with the indicators, and the results of your review of their expenditures in relation to their draws. Keep in mind that drawdowns should lag behind reported accrued expenditures. If the grantee has a subrecipient, request evidence that the grantee is monitoring the cash management activities of their subrecipients.*

*Complete the Cash on Hand Analysis. In addition, there is a series of questions regarding internal controls that relate to cash management located with Objective 3.6 Internal Controls. It may be helpful to address those questions concurrent with this review.*

- Based on the cash-on-hand analysis, determine whether there is excess cash-on-hand.
- How long is the period between the grantee's request for funds and the availability of those funds for expenditure? If there appears to be more than a one day lag, investigate the cause.

- How often does the organization draw down cash and how does it determine when and how much cash to draw down?
- Does the organization follow its policies and procedures on cash management?

**Sources and Notes:**

- [For state grant recipients only.] Determine whether the program(s) being reviewed are covered by the state treasury Cash Management Improvement Act (CMIA) agreement. If yes, the issues of excess cash and interest earned are governed by the agreement.
- Examine an organization’s daily cash balance noted on its monthly bank statements. If the organization carries a balance of more than \$100,000, does it have sufficient collateral on record with the bank to cover any potential losses that are not covered by the Federal Deposit Insurance Corporation (FDIC)?
- Does the organization have policies in place for payment of non-sufficient funds, overdraft fees and other penalties which cannot be paid using Federal funds?

• **Note to reviewer:** Ask the state what the dollar threshold is for a program’s inclusion in the CMIA agreement. If our program funding exceeds that level, suggest the state contact the U.S. Department of Treasury to update the CMIA agreement.

3.2.1 - - Part II

- How is cash requested from the higher tier? Describe the process.

Cash Advances

- What is the organization’s policy on issuing cash advances?
- How are cash advances liquidated? Cash advances need to be liquidated prior to the release of additional funds.
- How is a cash advance recovered from an agency in which work or a contract has terminated?

Reimbursements

- Under what circumstances does the organization use reimbursement for payment to its subrecipients?
- Are reimbursements processed in a timely manner by the organization?

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### Working Capital Advances

- Does the organization use working capital advances?
- If yes, is this method used only when there is not a system for regular advanced payment and the organization cannot operate on a reimbursement basis?
- Do its procedures ensure that the amount of the advance is limited to the subrecipient's needs for the initial disbursement period [20CFR 97.21(e)]?

### Wire Transfers

- Does the organization have a system and procedures in place to address the use of wire transfers?
- Does the organization maintain a log of wire transfers? Are wire transfers included as part of monthly bank reconciliation?

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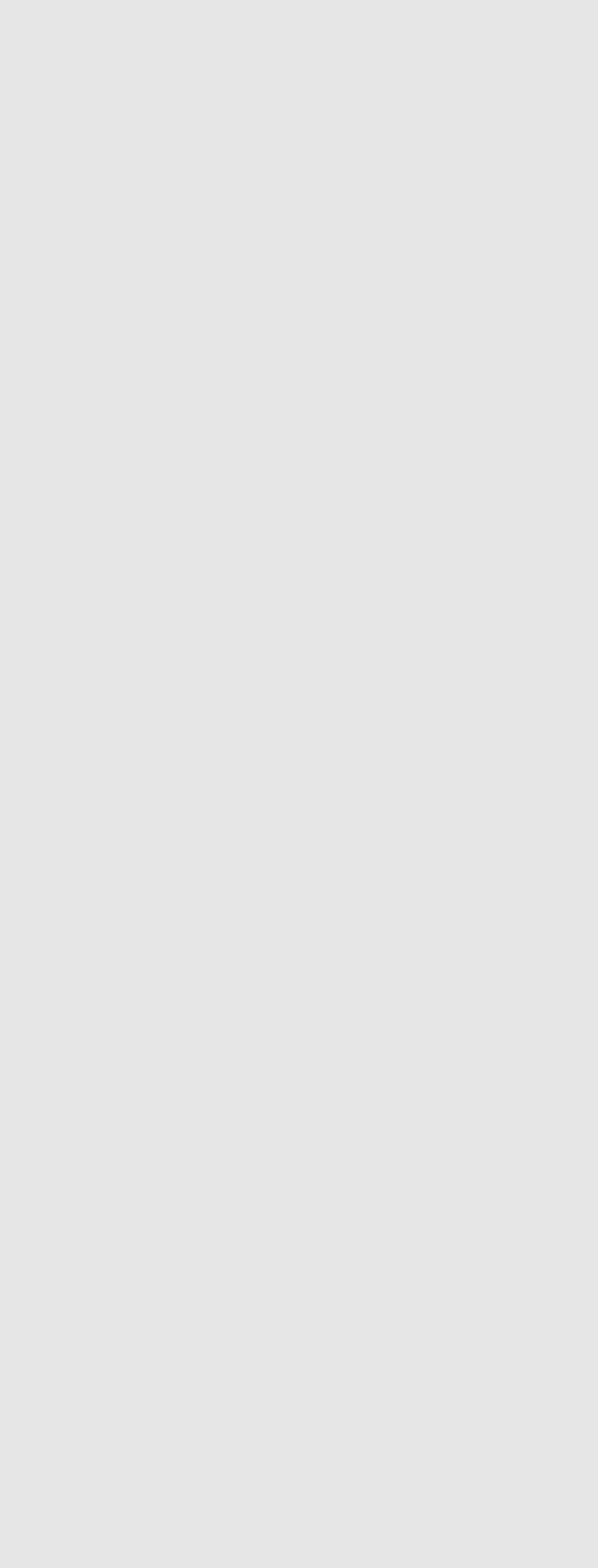
- 3.2.2** Grant recipients have mechanisms in place, including policies and procedures, to ensure accountability over other cash related activities. **C**

- Are funds maintained in an interest-bearing account? If not, why? [see 29CFR 95.22(k)]

***If the organization uses any of the following, are there sufficient safeguards? (See additional questions in R3.6 Background for Internal controls.)***

- Credit/debit cards?
- Petty cash fund?
- Other cash-type transactions (e.g., bus tickets, vouchers, signature stamps, etc.)?

Does the organization have policies and procedures to govern these other cash-related activities?



### Bank Reconciliations

- Sample items contained in the check register and the cash journal to the bank statement and vice versa:
- Are check numbers that are out of sequence adequately explained and justified?
- Are temporary checks destroyed once printed checks are received?
- Are policies in place to ensure that the bank is notified immediately when there is a change in signatory authority?
- Are all voided checks accounted for?
- Is there a procedure to investigate uncleared checks?

**Objective 3.3 Program Income:** The organization is aware of the requirements for earning, spending, and reporting program income [29 CFR 97.25; 29 CFR 95.24].

- 3.3.1** The organization understands the definition of program income, knows whether it is earning program income, and if it is earning program income, is documenting it correctly and using the cash to provide additional services under the grant prior to drawing grant funds. **C**

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- 3.3.1** The organization understands the definition of program income, knows whether it is earning program income, and if it is earning program income, is documenting it correctly and using the cash to provide additional services under the grant prior to drawing grant funds. **C**

*Review the organization’s Financial Report to determine if it is earning, using, and reporting program income. Based on your review, if the organization does not appear to be earning, using, and reporting program income, use the guidance above to determine if the organization is earning program income but has failed to use, document, and report it.*

- Does the organization know whether it is earning program income?
- Are they aware of the definition of program income as it relates to their activities?
- How does the organization ensure that program income earned is being documented correctly and used to provide additional services under the grant?
- Do the organization and its subrecipients use cash from program income activities before requesting additional Federal grant funds (cash draw)?

**Sources and Notes:**

*To answer the core guide questions, remember that different funding sources include different items within the realm of program income, e.g., for WIA-funded activities, interest income, revenue in excess of costs, etc. See Appendix B for a definition of “program income.”*

- Verify that all program income is properly accounted for, reported, and used for allowable purposes.
- Are all sources of program income identified, e.g., fees for services, use fees, conference fees, honoraria?
- Is there a process to ensure program income must be liquidated prior to the grant expiration?
- Is program income generated by multiple funding sources properly allocated?

**Objective 3.4 Cost Allocation:** The organization only allocates costs to the grant to the extent that a benefit was received [OMB Circular A-87 Attachment A; A-122 Attachment A; A-21 Section J].

- 3.4.1** There is written evidence, such as a timesheet, that costs being allocated to the grant are being treated consistently over time and within the accounting system, are necessary and reasonable, and are allocated to the grant based on the benefit received. The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **C**
- 3.4.2** The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **E**
- 3.4.3** The organization has an approved indirect cost rate or cost allocation plan. **C**

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- 3.4.1** There is written evidence, such as a timesheet, that costs being allocated to the grant are being treated consistently over time and within the accounting system, are necessary and reasonable, and are allocated to the grant based on the benefit received. The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **C**

*Allocability is the extent to which a cost benefits the grant. A common allocation issue arises when personnel compensation costs are charged to a grant. Allocate to the grant only that portion of time that staff spends implementing allowable activities. If the organization receives funds from more than one source or administers more than one grant program, obtain copies of the timesheets of two staff who work on more than one grant to determine how they are allocating their time among the grant programs. Use timesheets to document grantee staff that work on more than one program.*

- How does the organization, which receives funds from more than one source or administers more than one grant program and has staff that work on more than one grant, allocate their staff’s time among the various grant programs they work on?

**[General cost allocation]**

*Review the cost allocation or similar document to answer the following questions. Complete a Cost Allocation Worksheet . What are the methods used for those costs that are required to be allocated among a number of programs?*

- Identify the number of fund sources the entity receives.
- What method(s) are used to allocate:
  - Staff salaries and benefits?

**Note to Reviewer:** When reviewing time distribution, include:
 

- Operating costs?
- Facilities costs?

**Note:** If other than traditional allocation methods are used, did the organization receive approval from its federal cognizant agency?

## Core Monitoring Guide

### Sources and Notes:

## Financial Supplement

### ***Determine:***

- Whether the bases for allocation are allowable and reasonable,
- Whether bases are consistent for similar types of costs,
- If programs are charged a share when:
  - They receive no benefit or
  - They receive a benefit greater or less than they are charged.

### **[One-Stop Resource Sharing]**

***For grantees who participate in the local One-Stop system, review the resource sharing or similar document to answer the following questions. Complete a Resource Sharing Agreement Checklist.***

- Does the resource sharing agreement or similar document
  - Identify common or shared costs, and provide a budget?
  - Determine the bases for allocating costs?
  - Allocate the common costs among all participating partners?
  - Identify the resources to be provided by each partner?
  - Are the provisions of this document in place and operating?
  - Does the included allocation process assign cost based on the benefit received?
- Based on all of the above, does the agreement as implemented appear to be reasonable in your judgment?

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- 3.4.2** The organization has written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs. **E**

*Review the organization's written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs.*

- Does the organization maintain written policies and procedures for distributing program costs, staff time, and general and administrative costs among programs?

**Sources and Notes:**

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- 3.4.3** The organization has an approved indirect cost rate or cost allocation plan. **C**

*Ask the organization if they have an approved indirect cost rate or a cost allocation plan. Obtain a copy of the organization's indirect cost rate or cost allocation plan and give it to regional fiscal staff as appropriate.*

- Does the organization have an approved indirect cost rate or cost allocation plan?

**Sources and Notes:**

### **Indirect cost rate**

- Do they have an approved rate?
- If no, should they have one?
- Have they submitted a proposal to the appropriate cognizant agency on a timely basis?
- Are they applying this rate against the appropriate bases in accordance with the terms of the approved indirect cost rate agreement?
- Is the rate they are using approved for the current period?

### **Cost allocation plans**

- Are similar costs consistently treated? For example, are there costs that should be charged as direct costs that are included in the indirect cost pool or vice versa?
- Is the grant charged cost from a statewide or local government-wide cost allocation plan?
- If yes, obtain a copy of the plan and validate whether the costs included are
  - Allowable
  - Non-duplicative
  - For items utilized by the program(s)

**Objective 3.5 Allowable Costs:** The organization has a system in place to ensure the program is incurring necessary and reasonable costs and is only charging allowable and allocable costs to the grant [OMB Circular A-87 Attachment A; A-122 Attachment A; A-21 Section C].

- 3.5.1** The organization has a copy of its applicable OMB cost principles circular and is aware of which costs are allowable, allowable under certain conditions, or unallowable. **E**

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- 3.5.1** The organization has a copy of its applicable OMB cost principles circular and is aware of which costs are allowable, allowable under certain conditions, or unallowable. **E**

*Ask program and financial staff which OMB cost circular they use to determine the extent to which a cost charged to the grant is allowable. If applicable, review the letter from the Grant Officer giving the organization approval to purchase equipment listed in their budget.*

*This indicator becomes a [C] Compliance indicator when reviewed as part of a financial review. Using the transaction testing tool (T3.0.3), select a sample of transactions and test for a variety of actions associated with cost allowability.*

- How does the organization ensure that the grant is not charged unallowable costs based on applicable cost principles and the provisions of the grant agreement?
- If the organization has subrecipients, how do they ensure that their subrecipients are following appropriate cost guidelines and the policies of the awarding agency? Has the organization issued written cost policies to their subrecipients?

- Based on analysis of the results of the transaction testing worksheet, do the costs of the organization meet the allowable cost standards?
- Does the organization’s financial system allow for the tracing of transactions to supporting documents?
- Does the entity have a written allowable cost policy for internal use that addresses the OMB Circulars, program statutory and regulatory requirements and/or the grant agreement?
- If the organization has subrecipients, has an external written allowable cost policy been issued that addresses prior approval requirements?
- Who is responsible for obtaining prior approval from the DOL Grant Officer?
- Who reviews requests from subrecipients for prior approval for the items in the OMB Cost Principles that require prior awarding agency approval?

**Sources and Notes:**

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- How does the awarding entity ensure that costs requiring prior approval by the Federal cognizant agency are approved, e.g., mass severance pay and statistical time sampling methods?

### **WIRED**

How does the entity ensure that subrecipient (s) know of and follow the ETA paper, “WIRED Initiative: Uses of the H1B Funding Revenue”?

**Objective 3.6 Internal Controls:** Effective control, integrity, and accountability are maintained for all grant and subrecipient cash, personal property, and other grant assets [29 CFR 97.20(a)(2) and (b)(3); 29 CFR 95.21(b)(3)].

- 3.6.1** Grant recipient has adequate safeguards for all grant property and ensures that it is used solely for authorized purposes; has mechanisms in place to prevent unauthorized purchases and disbursements of grant funds; and safeguards its cash and other assets so no one person controls the order, receipt, payment, and reconciliation of an asset. **C**

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- 3.6.1** Grant recipient has adequate safeguards for all grant property and ensures that it is used solely for authorized purposes; has mechanisms in place to prevent unauthorized purchases and disbursements of grant funds; and safeguards its cash and other assets so no one person controls the order, receipt, payment, and reconciliation of an asset. **C**

*Ask the organization's financial staff for evidence, including written policies and procedures, of separation of duties or other safeguards that they have in place to prevent unauthorized purchases and disbursements of grant assets. Observe the activities of staff to determine the extent to which they have implemented their internal control policies and procedures. Inquire about how the organization manages its assets so no one person has complete control over all aspects of a financial transaction. Document their responses to your inquiries, the extent to which they are in compliance with the indicators, and your observations.*

- How does the organization manage and safeguard its cash and protect its other assets so no one person has complete control over all aspects of a financial transaction?
- What safeguards exist to prevent unauthorized purchases or disbursements of funds?

#### Sources and Notes:

*Internal controls must be present in a number of areas to safeguard grant assets appropriately. Prior to conducting your analysis, review the organization's single audit report on internal controls to identify noted deficiencies.*

*Resource T3.6.1 provides a comprehensive list of required internal controls. Complete worksheet T3.6.1 and use the information to address the questions*

- Review the results of the internal control worksheets. Do the results of those reviews ensure that the following are in place, communicated to appropriate staff, and followed:
  - Duties are separated adequately to ensure that one single person is not requesting, authorizing, and issuing payment or checks
  - Transactions are appropriately authorized
  - Assets are safeguarded
  - Budgetary controls are in place
  - IT systems are secure
  - Internal controls are periodically tested and modified when necessary

**Objective 3.7 Financial Reporting:** The organization has an accounting system that allows it to maintain accurate and complete disclosure of the financial results of its grant activities and those of its subrecipients according to the financial reporting requirements of the grant [29 CFR 95.21(b)(1); 29 CFR 97.20(b)(1)].

- 3.7.1** If the organization maintains its books of account on a cash basis, it develops and reports accrual data on the financial status report. **C**
- 3.7.2** If there are subrecipients, the grantee has a system in place to ensure the subrecipient is reporting the financial results of its grant activities on an accrual basis and in a timely manner. **C**

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- 3.7.1** If the organization maintains its books of account on a cash basis, it develops and reports accrual data on the financial status report. **C**

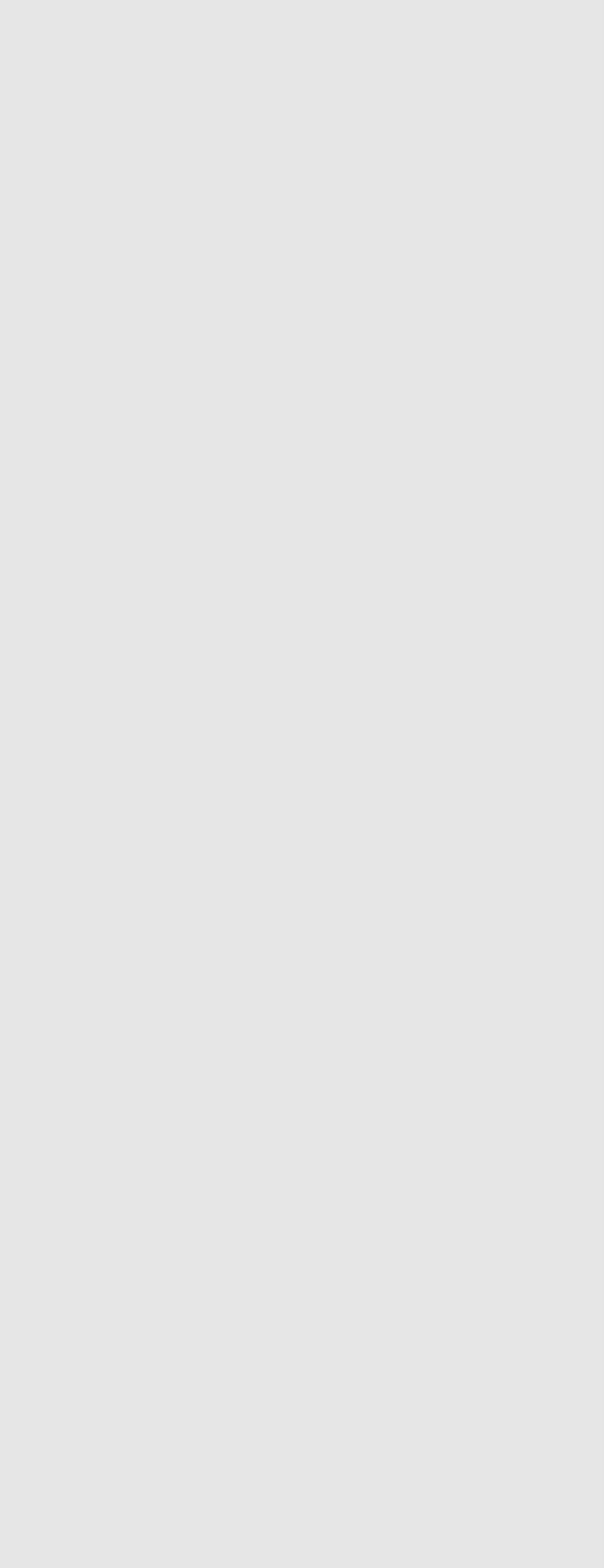
*If the organization keeps its books on a cash basis, ask the organization for evidence that the financial data included in its quarterly financial status reports to ETA are on an accrual basis. This may be in the form of a spreadsheet or another type of document that will link to the accounting records.*

- Does the organization maintain its books of account on a cash or accrual basis?
- Is the financial data included in the costs reported to ETA on an accrued basis? What evidence is there to support accruals (spreadsheets, MIS reports, etc.)?

**Sources and Notes:**

**Complete Tool T3.7.1 and use the information to determine:**

- Does the organization have a methodology to capture recipient’s share of costs on the reporting form?
- Does the organization have a methodology to capture program income data on the reporting form?
- If the organization maintains its books on a cash basis, how does it identify and report expenditures on an accrual basis?
- Regardless of how the grantee maintains its books, how does it ensure it captures the costs of all activities that took place in the reporting period?
- If estimated accrual amounts are used, what is the basis of the estimate?
- Review supporting documentation; trace selected cost(s), such as participant training, to/from financial reports.
- Review the financial reports and accrual spreadsheets.
- Do the reports reflect costs captured in:
  - The appropriate funding stream,
  - The appropriate year of fund availability, and/or
  - The appropriate HHS-PMS subaccount?

- 
- Does the organization have procedures in place to ensure that it uses the funds within the period of availability, i.e., on a first in, first out (FIFO) basis?
  - Does the grantee have a procedure to accurately report federal cash items?

- 3.7.2** If there are subrecipients, the grantee has a system in place to ensure the subrecipient is reporting the financial results of its grant activities on an accrual basis and in a timely manner. **C**

*If applicable, determine if the organization is receiving financial data from its subrecipients in a timely manner so that it can include this data in its reports to ETA. Ask for copies of any policies or contract clauses related to subrecipient reporting.*

- Is the organization receiving timely data from its subrecipients?
- Are there policies or contract clauses concerning financial reporting?

**Sources and Notes:**

- Has the organization issued reporting instructions and formats to its subrecipients?
- Does the organization have a methodology to capture subrecipients' share of costs on the reporting form?
- Does the organization have a methodology to capture subrecipients' program income data on the reporting form?
- Does the organization require its subrecipients to identify and report expenditures on an accrual basis?
- How does the organization verify that all accruals are included?
- If estimated accrual amounts are used, what is the basis of the estimate?
- Are administrative costs being reported appropriately, if necessary?