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**REFERENCE BOOK TWO:**  
**A QUICK GUIDE TO FINANCIAL  
MANAGEMENT REQUIREMENTS FOR  
EARMARK GRANTS**

**U.S. DEPARTMENT OF LABOR  
EMPLOYMENT AND TRAINING ADMINISTRATION**

REVISED APRIL 2008



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**A Quick Guide to Financial Management  
Requirements for Earmark Grants**

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**Prepared for:**

U.S. Department of Labor  
Employment and Training Administration

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# A QUICK GUIDE TO FINANCIAL MANAGEMENT REQUIREMENTS FOR EARMARK GRANTS

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# **A QUICK GUIDE TO FINANCIAL MANAGEMENT REQUIREMENTS FOR EARMARK GRANTS**

## **INTRODUCTION**

The Employment and Training Administration (ETA) of the U.S. Department of Labor (DOL) has many requirements that determine how grant dollars can be budgeted, spent, and accounted for. Some of these requirements come from the Workforce Investment Act (WIA), the Federal legislation that authorizes the money for the grants. Some are imposed by the Federal Office of Management and Budget (OMB) and apply to all Federal grants. Some financial management requirements derive from the Generally Accepted Accounting Principles (GAAP), which are those accounting guidelines that are usually followed by all Certified Public Accountants and the accounting profession. Together, these requirements provide an integrated framework for the process that you will use to produce a budget for your grant application—a preaward activity. When your grant is awarded, this framework for financial management will be the basis for how you will expend grant funds, keep records of those expenditures, make routine reports of your expenditures, and be audited for compliance with all applicable Federal requirements.

The purpose of this guide is threefold. First, it provides assistance with the immediate task of developing your grant budget so that it meets financial management requirements for how funds can be spent in your particular situation. These are called “cost principles and allowable costs”—the requirements that assure that you don’t plan to spend money in ways that will conflict with any requirement. Noncompliance with cost principles may lead to your grant not being approved.

Second, the guide enables you to see how all the myriad requirements fit together and complement each other so that you will have the context for making immediate decisions about your organization’s ability to manage grant funds while you await the processing of your grant. In this context, the guide will give you an early warning of changes you may have to make to meet various financial and administrative requirements for safeguarding your funds and accounting for how they were used. Do you need to apply for an indirect cost rate? Do you need to change your procurement procedures or switch to an accrual system for accounting for your expenditures?

Third, the guide alerts you to the implications of Federal grant audits. How do you prepare in advance for a possible audit? What records should you generate to satisfy ETA’s grant oversight responsibility?

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To accomplish this, the guide starts with a discussion of the relationships of the various requirements to show how the topics addressed in the guide fit in the big picture. Each requirement and/or guide topic is depicted on a chart. The chart key will help you see specific relationships that evolve from the various authoritative citations contained in the guide. The first chapter contains an outline of financial management standards and offers a glossary of terms that are common to any discussion of financial requirements.

Next, the guide presents selected topics in enough detail to give you an understanding of their underlying concepts and the roles they will play in your grant's administration. The first topic covered is Federal cost principles and allowable costs, which deals with items such as allowability of costs, what constitutes reasonable costs, and tips for classifying costs so that they are readily assignable to ETA cost categories and budget line items.

The second topic covered is cost allocation. You will find important terms defined and a synopsis of the standards that must be met when you share costs across different sources of revenues.

The third topic is procurement or how to buy goods and services, including purchasing equipment and contracting for training services for participants. This chapter is important because it contains information that clarifies points that have been a source of confusion for past Earmark grants.

The fourth topic covered in the guide is about property management. It may surprise you to learn that there are standards or requirements for how you manage property acquired under your grant.

The fifth topic is a brief overview of financial reporting.

The sixth and seventh topics covered in this guide give you insights into how your financial management system must respond to audits and post-grant closeout requirements. Keeping records and accounting practices aligned to these requirements will forestall future problems.

The eighth and final topic provides you with some critical information regarding your post-grant responsibilities.

# CHAPTER 1: GRANT FINANCIAL MANAGEMENT REQUIREMENTS



## OVERVIEW

Before you can begin operation of your Earmark grant, you must make sure that your financial management system will allow you to properly account for and manage the funds. The rules applicable to the use and protection of ETA grant funds are found in DOL regulations for the management of grant funds at 29 CFR Part 97 and 29 CFR Part 95. Part 97 requirements apply to recipients and subrecipients that are units of State, local, or Indian tribal governments. Part 95 requirements apply to virtually all other types of recipients and subrecipients, including profit-making commercial organizations. These requirements lay the framework for grant management through the definition and description of a system that properly accounts for and manages grant funds. They also cover other topics such as procurement and property management that, together with requirements relating to audits, lobbying, suspension and debarment, and nondiscrimination, collectively comprise grant management requirements which recipients and subrecipients must follow.

At the conclusion of this chapter are two charts. Exhibit 1 is a schematic representation of the relationships of the various elements of the required financial management system. Exhibit 2 is a chart that displays the various citations for the rules that are the basis for the Earmark financial requirements.

This chapter gives you an overview of the system that must be in place to expend grant funds so that you have a “big picture” of grant financial management in its entirety. The guide does not touch on all grant management requirements, so it is important that you can see how the topics covered in the guide relate to the required financial management system as a whole. It is also important that you have a working vocabulary that allows you to follow the discussions in the guide and the various references that the guide makes. If you don’t understand the terms, you won’t benefit much from the guide.

We start this chapter with a glossary of common terms. This list will be augmented by additional definitions of less common terms that we will introduce in subsequent chapters. Next we give you an overview of ETA’s financial standards that define the core elements of the financial management system. Finally, we present a graphic illustration of the various core elements that indicates each element’s relationship to the topics presented in the guide. That will be the big picture that we want you to have before you proceed to the rest of the guide.

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## COMMON TERMS

Throughout this guide, we will be using terms with which you may be unfamiliar or have used differently within your organization. It is important that you become familiar with these terms and how they are used in Federal grants.

**Expenditure** means an amount that you have paid or a charge that you have incurred for an item or service used in the performance of your grant. While there are differences between the terms “expenditures” and “costs” as they are used in the accounting profession, these terms are used interchangeably throughout this technical assistance guide.

**Accrued expenditure** means the charges that you have incurred against grant funds for goods or services received that have been paid for (a disbursement of funds) or that you will owe in a future period. An example of an accrued expenditure is payroll cost for time worked by staff that will be paid in a future period. Since ETA requires that you report your expenditures on an accrual basis, the amount reported will include both amounts paid in the current quarter and amounts that will be paid in the next quarter for work performed in the current quarter.

**Allowable costs** means that portion of total costs incurred which satisfies all ETA requirements for allowable costs chargeable to your Earmark grant. These requirements include Government-wide cost principles, as well as any limitations on allowable costs established in applicable regulations and the provisions of your Earmark grant agreement.

**Cost allocation** is the process by which an item of cost is distributed to two or more different cost objectives, e.g., grants, through the application of a formula that determines the benefit each cost objective receives.

**Direct costs** are costs that benefit only one final cost objective such as a cost category or budget line item of your grant. Therefore, they can be charged directly to a final cost objective without any further allocation or breakdown by funding source or cost category. An example of a direct cost might be participant support costs such as childcare for a participant receiving services under your grant.

**Indirect costs** are costs that benefit more than one final cost objective. They may originate in your own unit or in other units or departments of your organization that supply goods, services,

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or facilities to your Earmark grant program. Most often, the term “indirect costs” is used to indicate costs that are incurred to support the overall operation of the organization. The benefit conferred on your Earmark grant or other Federal grants by indirect cost items cannot be shown without disproportionate effort. For this reason, indirect costs are charged to the program using an indirect cost rate or a cost allocation plan (CAP). Indirect costs and the requirements for charging these costs are addressed in chapter 3 of this guide.

**Shared costs** are a type of indirect costs that, while they cannot be readily assigned to a final cost objective, are usually not allocated to your Earmark grant and other final cost objectives by means of an indirect cost rate or CAP because they do not support the overall operation of your organization. Shared costs are similar and must be distributed to final cost objectives through a cost allocation methodology. An example of a shared cost would be personnel and other costs of performing the intake function, which benefits several programs.

**Project** is used here to refer to the activities, approaches, and objectives comprising your grant’s statement of work.

These are only a few of the terms we will be using in this guide. While we will make every effort to define the terms as they are used, you can also find definitions for these and many other financial management terms in the Uniform Administrative Requirements at 29 CFR 97.3 or 29 CFR 95.2. There are also terms included in the WIA regulations related to program services and activities. You should refer to these sections of the regulations if you are unsure of the meaning of any term used in this guide.

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## FINANCIAL MANAGEMENT STANDARDS

By setting financial management standards, ETA is taking responsible actions to assure that grant funds are used in the public's interest. This may be a simple and obvious concept, but if you keep the protection of public interest firmly in mind, you will not stray far from the framework for your financial system established by these standards. Keep in mind, that your system must meet the following standards before you can begin performance under the grant. Give yourself sufficient time to have a system in place that meets these standards before starting up your grant activities.

**Allowable Costs.** Applicable OMB cost principles, ETA grant regulations, and the terms of the grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs. Only allowable costs may be charged to your Earmark grant, and you may not pay for more than your fair share of the costs (allocability). This means that you must determine what costs incurred by your organization are allowable. A more detailed discussion of allowable costs is found in Chapter 2: Cost Principles and Allowable Costs.

**Accounting Records.** You must keep records that adequately identify your Earmark grant funds apart from other funds available to your organization. The records must contain information about your grant, any subgrant awards that you make to other organizations, authorizations to expend grant funds (the initial notice of obligation and subsequent notices of obligation that add or subtract available grant funds), assets (such as grant funds received and equipment or other property acquired with grant funds), obligations and other liabilities (grants/contracts awarded, cash expenditures and goods/services received but not paid for, staff time worked, and other commitments of resources you owe to others in performance of the grant), unobligated balances, expenditures (or outlays, as they are called on the reporting form), and income or revenues that you receive.

The records must be maintained in accordance with Generally Accepted Accounting Principles (GAAP). GAAP is a set of accounting principles that are developed by the accounting profession. If you have any questions about GAAP, you should discuss them and their applicability with your independent auditor. Grantees and subgrantees may use either the cash or

the accrual method of accounting; however, expenditures must be reported to the ETA on an accrual basis. If the records are maintained on a cash basis, you must maintain a set of linking records, typically accrual spreadsheets containing adjustments to accounting system balances, so that the reported costs are traceable during monitoring or auditing from the required financial reporting document to the official accounting records or books of account. A further discussion of cost classification and reporting of costs is found in chapter 2 of this guide.

**Financial Reporting.** At a minimum, you must disclose the financial results of your Earmark grant activities on the required financial reporting document (ETA-9130) on a quarterly basis. In addition, ETA also requires that you are able to document your costs by budget line item and ETA cost categories. The reports must be accurate, current, and complete. This means that the allowable costs reported to ETA must be traceable to accounting records.

**Source Documentation.** Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, time distribution reports, contract and subgrant award documents, tax records, etc. Source documentation is the proof that costs reported to ETA are, in fact, allowable and allocable to the grant. This source documentation must be available for review by your Federal Project Officer (FPO) or other ETA representatives and auditors and directly relate to the costs claimed on the ETA-9130 and other financial reports.

**Internal Control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Internal controls are designed to provide safeguards for Federal funds. For example, payments may not be authorized solely by an employee who also has the authority to sign checks. Internal controls for property often are inherent in the inventory system that tracks purchases and locations or use of property procured with grant funds. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized ETA grant activities.

**Budget Control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. This is often referred to as a “planned vs. actual” analysis. The results of this type of analysis are used to preclude overspending and/or signal the need to modify contracts and

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grant agreements. The information is also used to ensure your compliance with the budget line item flexibility provision specified in the grant terms and conditions. You must request a modification to your grant whenever you exceed a line item's flexibility criteria.

**Cash Management.** You must have procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement (cash payments). As advances are made by PMS/electronic transfer of funds methods, you must forecast your immediate cash needs to ensure that cash is received as close as possible to the time of actual disbursement. You must also monitor the cash received by any subgrantees to minimize their cash on hand.

In addition, grantees should relate the financial results of the program to program performance information and develop unit cost data “whenever practicable” (29 CFR 95.21(a) and 29 CFR 97.21(b)(4)). In practical terms, this means that grantees should compare the costs associated with the program to the results achieved by that program. A simple example of this would be to divide the costs of a job placement contract by the number of placements, resulting in a “cost per placement.”

Your FPO or other ETA representatives may review the adequacy of your administrative and financial management system as part of a pre-award review or at any time subsequent to award. At a minimum, these systems will be reviewed as part of the required annual audit of the organization. Processes and procedures should be documented through the development of manuals or policy directives that clearly state exactly how you will adhere to these requirements. The adequacy of these systems may impact on future funding or result in the imposition of corrective action plans. The standards contained in this chapter form the basis for the overall financial management of your Earmark grant.

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## THE GUIDE'S RELATIONSHIP TO FINANCIAL MANAGEMENT STANDARDS

As we said earlier, this guide only covers topics that are critical in terms of immediacy—financial management considerations that should be addressed before grant funds are expended. These are:

**Cost Principles and Allowable Costs**—Determines what you can buy with your money.

**Cost Allocation**—Determines how costs may be shared.

**Procurement**—Determines the manner in which your organization purchases goods and services.

**Property Management**—Determines how to account for any property purchased under the grant.

You also should be aware that this guide only covers a part of the subject matter comprising Federal financial management standards. Meeting the requirements specified in the guide does not assure that your financial management system complies with all Federal financial management standards.

To grasp the big picture, it may be helpful to think of the entire financial management system to be divided into elements associated with two primary objectives. One objective is the accountability for funds. Simply stated, accountability for funds is the ability to account for spent money to meet the financial management standards. The second objective is to expend funds in a manner that protects the public interest through procedures that keep the money secure or safe.

The diagram that appears on the next page gives you a birds-eye view of the entire financial management system and the primary relationships between and among system elements. The items in boldface are topics covered in the guide. The chart key on the next page will help you to understand the relationships depicted by the chart.

**Allowable Costs** is a basic cornerstone of the accounting system because it defines what can be purchased with grant funds. Allowable costs are directly linked to the source documentation, which describes what was purchased, that it was necessary for the operation of the grant, and verifies that the cost was reasonable.

**Cost Allocation** also determines what can be properly charged to your grant budget and, like allowable costs, determines what must be accounted for in your financial management system. Cost allocation is referenced in the cost principles and must be based on your accounting records.

**Accounting Records** are the tabulations of all money received and spent and represent the center of the system where cost data are stored. Accounting records must be supported by source documentation, and these links are critical to the security of your system. In addition, accounting records inform management on cash flow that, in turn, dictates how cash is managed in compliance with ETA requirements. Naturally, accounting records are the sources of data for all financial reporting. This usually requires that accounting be configured to respond to the ETA's specific reporting requirements.

**Financial Reporting** is directly related to budget control. It is through the financial reports that ETA and the grantee determines that spending is aligned with stipulated cost limitations.

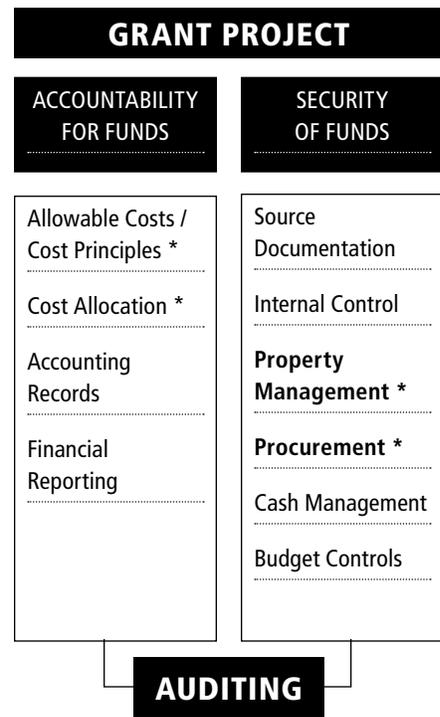
**Source Documentation** also relates to the security issue of internal controls.

**Internal Controls** dictate the need for procurement standards and property management so that purchases are made and managed in accordance with your organization's policies and the public interest.

**Budget Controls** are informed by financial reports.

**Cash Management** is informed by the accounting records.

**Audits** will examine all of the above issues to document that the grant's financial management system meets all of ETA's financial management standards.



• Guide Topics

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Managing the financial aspects of your Earmark grant can be quite complicated and you must comply with a number of different sets of rules and requirements. Some of these rules are found in the WIA regulations that specify the types of services and activities that may be provided and specific financial management requirements that apply only to WIA funded grants. Other sets of rules are the cost principles which describe the standards that must be met before you can charge a cost to your grant, and the uniform administrative requirements that govern the management of your grant from setting up your financial management system to the requirements for acquiring and managing property to how you closeout your grant when it terminates.

The cost principles are found in a series of guidelines issued by OMB and referred to as the OMB circulars. The uniform administrative requirements also are based on a set of OMB circulars, but have been codified into regulations that apply to all DOL grants. These regulations are found at 29 CFR Part 97 for governmental grantees and 29 CFR Part 95 for all nongovernmental grantees. These rules will govern all aspects of your Earmark grant beginning with the development of the budget and the grant application package and ending with the closeout of your grant and the requirements for maintaining and retaining records.

Exhibit 2 is a chart that shows the authoritative citations for the various financial requirements.

## Exhibit 2: Cross Reference of Administrative Requirements

Requirement	Governmental Organizations	Nonprofit Organizations	Institutions of Higher Education	Commercial Organizations
<b>Audit</b>	29 CFR Part 99	29 CFR Part 99	29 CFR Part 99	29 CFR Part 96
<b>Audit Resolution</b>	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96	29 CFR Part 96
<b>Basic Principles for Allowable Costs</b>	2 CFR Part 225 Appendix A	2 CFR Part 230 Appendix A	2 CFR Part 220 Appendix A	48 CFR 31.201 through 204
<b>Treatment of Selected Items of Cost</b>	2 CFR Part 225 Appendix B	2 CFR Part 230 Appendix B	2 CFR Part 220 Appendix A	48 CFR 31.205
<b>Uniform Administrative Requirements (grants only)</b>	29 CFR Part 97	29 CFR Part 95	29 CFR Part 95	29 CFR Part 95
<b>Lobbying Restrictions</b>	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93	29 CFR Part 93
<b>Suspension and Debarment</b>	29 CFR Part 98 Subparts A–E	29 CFR Part 98 Subparts A–E	29 CFR Part 98 Subparts A–E	29 CFR Part 98 Subparts A–E
<b>Drug-Free Workplace</b>	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F	29 CFR Part 98 Subpart F
<b>Non-Discrimination (Civil Rights)</b>	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31	29 CFR Part 31
<b>Non-Discrimination (Basis of Handicap)</b>	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32	29 CFR Part 32
<b>EO Requirements</b>	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37	29 CFR Part 37
<b>Equal Treatment for Religious Organizations</b>	29 CFR Part 2 Subpart D	29 CFR Part 2 Subpart D	29 CFR Part 2 Subpart D	29 CFR Part 2 Subpart D

Note: Additional requirements are contained in the WIA program regulations.

## CHAPTER 2: COST PRINCIPLES AND ALLOWABLE COSTS



### OVERVIEW

Now that you know about the various elements of the financial systems that you must have in place to meet Federal requirements, we will move on to some of the more critical rules that these systems must support. The first of these are the basic cost principles that apply to all financial activities. The cost principles are a set of rules or standards that must be met in order to charge a cost to your Federal grant. The cost principles are the basis for determining whether a particular cost charged to the grant will be honored by ETA or, to say it another way, is an allowable cost. An “unallowable” cost is a cost that ETA will not honor.

Once we understand what is allowed, we have to figure out how to track costs to meet Federal accounting and reporting requirements. ETA has a particular way of organizing costs into categories and cost objectives that is applied to grant application budgets, where costs are projected for approval by ETA and to the forms where expenditures are reported. Naturally, the cost classification system has implications for the accounting and reporting functions of your financial system.

This chapter of the guide is to help you know what an allowable cost is and how to organize these costs into a classification system that can support reports of financial results to ETA. You will find herein a summary of the cost principles and WIA regulations that determine allowable costs, examples of cost items that are common to grants and under what circumstances they are allowable, the cost classification system, and some tips for dealing with the accounting and reporting issues that arise as a result of the cost classification system.

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## COST PRINCIPLES

The cost principles are important because they determine how you may use grant funds. The first place they come into play is when you develop the required budget for your Earmark grant application. Subsequent to your grant award, these cost principles will govern how you expend grant funds.

The cost principles are contained in a series of Federal guidelines issued by OMB, but there are also additional rules regarding allowable costs in the WIA legislation. Let's look at the OMB guidelines first. It is important to note that the cost principles cited by OMB vary slightly as a function of the type of organization applying them. The cost principles contained in OMB Circular A-21 are for grantees that are educational institutions; 2 CFR 225 has cost principles for State, local, and Indian tribal governments; and 2 CFR 230 provides cost principles for nonprofit organizations. These documents can be downloaded in their entirety from the OMB Web site, and you should have a copy of the circular applicable to your organizations available for ready reference. (Please note that the OMB circulars were revised on May 10, 2004, impacting language and treatment of a number of Selected Items of Cost. Ensure that the revised versions are referenced in making allowability determinations.) The OMB circulars are incorporated by reference as requirements for the Earmark grants at 29 CFR 95.27 and 29 CFR 97.22 and are further specified in the WIA regulations.

On August 31st, 2005 these OMB Circulars were codified in Federal regulations as 2 CFR Part 220 (A-21), 2 CFR Part 225 (A-87) and 2 CFR Part 230 (A-122).

As the majority of the Earmark grantees are nonprofit organizations, the guidance in this chapter is based on the requirements of OMB 2 CFR 230. The applicable cost principles for all types of grantees are essentially the same, with minor differences in wording. You are urged to review the circular applicable to your organization to determine the exact requirements for your Earmark grant.

In addition to the OMB circulars, the WIA and its implementing regulations also specify costs and activities that are either prohibited or allowed under special circumstances as well as the types of program activities that are authorized or prohibited. For example, the WIA regulations prohibit public service employment activities except in special cases, e.g., disaster relief. Any costs associated with a specifically prohibited activity would likewise be unallowable. Following our discussion of the general OMB cost principles, we

will look at specific WIA conditions that must be met for your costs to be allowable.

### Federal Cost Principles as Established by OMB

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Your Earmark grant budget will probably contain direct costs plus a portion of the indirect costs that are shared by all parts of your organization. Let's look at these terms. "Direct" costs represent expenses that benefit grant activities only, such as the wages of personnel who implement the grant. "Indirect" costs represent expenses that are shared across all of an organization's activities and corresponding funding sources. Indirect costs are expenses that benefit the whole organization and cannot be attributed to any one grant or program. An example of an indirect cost is the utility bill for the building that houses the organization and all its various activities. If, on the other hand, the Earmark grant activities occurred in a building rented for that purpose alone, then the utilities costs for the building would be a direct cost properly charged to the Earmark grant. Indirect costs may only be claimed if you have developed an indirect cost rate proposal which is the basis of the indirect costs charged to your grant. In addition, the DOL Office of Cost Determination or your cognizant Federal agency for indirect costs may require you to submit your indirect cost proposal for its approval before you may charge indirect costs to this and other grants.

Total allowable costs are composed of allowable direct costs and the allocable portion of indirect costs. The allocable portion of indirect costs is that portion of indirect costs that has been determined by your negotiation with the Office of Cost Determination or your cognizant agency to be the Earmark grant's rightful share of the total indirect costs. The total allowable costs are the only costs that you may charge to your federally funded Earmark grant.

OMB 2 CFR 230 provides the general guidance on overall cost principles in attachment A. This same general guidance on the allowability of costs is found in attachment A of 2 CFR 225 as well. Based on these references, the following general cost principles must be used in determining cost allowability for ETA grants.

**1. Costs must be reasonable and allocable.** To be "reasonable" costs should be generally recognized as ordinary and reasonable for operating your organization to carry out the performance of your grant. You might do this by asking the following questions: Do the costs incurred for administering the ETA grant appear reasonable

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when compared with costs I incur for administering other Federal grant programs or non-Federal programs? Did I solicit price quotations in order to compare costs?

To be “allocable,” costs must be clearly identifiable as benefiting your grant. Costs charged to the Earmark grant should benefit only that specific grant program, not other programs or activities. In order to be allocable, a cost must be treated consistently with like costs and incurred specifically for the program being charged. If the cost benefits both the Earmark grant and other work, it must be distributed in reasonable proportion to the benefits received by all cost objectives. It must also be necessary to the overall operation of the organization even when the direct relationship to a final cost objective, which is the Earmark grant, cannot readily be shown.

If you conduct other programs in addition to this grant, proper allocation methods should be used to determine what share of costs should be charged to each grant or program. The methods used to distribute such joint costs should be suitable to the type of costs being distributed.

A common cost issue often arises regarding salary and time charged to a grant for personnel compensation. You may allocate to the Earmark grant only the portion of time that a person spends supporting the implementation of grant allowable activities. Further, if you or your subgrantees operate more than one federally funded grant, costs must be allocated to each funding stream based on proper allocation methods. Finally, as with direct costs, allocated costs may not be shifted to other Federal awards. Chapter 3 of this guide discusses the requirements for cost allocation in greater detail.

**2. Costs must conform to grant exclusions and limitations.** You may not charge a cost to your Earmark grant that is unallowable per the WIA regulations or the cost limitations specified in your grant agreement. An example of this requirement is the limitation on administrative costs that is contained in the grant agreement.

**3. Costs must be consistent with policies and procedures.** You must comply with your own organization’s procedures for charging costs. The costs must be accounted for in your books of account in the same manner as non-grant costs, and you must follow your own procedures for managing the grant activity that you use to manage the organization as a whole.

**4. Costs must receive consistent treatment.** You must treat a cost uniformly across program elements or from year to year. Costs

that are indirect for some programs cannot be considered direct costs for your Earmark grant. This means that a cost may not be charged to the grant as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another grant as an indirect cost. The next chapter on cost allocation contains additional guidance on cost consistency and what this means for your grant.

**5. Costs must be accounted for in accordance with GAAP.** GAAP, or Generally Accepted Accounting Principles, is a set of standards developed by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants (AICPA) that specifies how assets, liabilities, costs and revenues are to be treated in the books of account. You should be familiar with these requirements and ensure that your financial and accounting systems are set up to comply with these requirements.

**6. Costs must not be used to meet matching or cost-sharing requirements.** You may not use your Earmark grant-funded costs, whether direct or indirect, as match or to meet matching fund requirements of any other program unless specifically authorized in the enabling legislation of the other program. There are no requirements for matching funds under the Earmark grants; however, you should remember that your grant funds may not be used as match for other Federal programs that you may operate.

**7. Costs must be adequately documented.** You must document all costs in a manner consistent with GAAP. Costs also must be traceable to source documentation for audit purposes. An example of source documentation would be either a time record for each employee who charges time against the Earmark grant or a paid receipt for a computer purchased with grant funds.

In addition, costs that you incur must not be prohibited by any Federal, State, or local laws. An example of a Federal prohibition is found in the WIA regulations at 20 CFR 667.264(a)(2), which prohibits spending WIA funds on public service employment activities except to provide authorized disaster relief. The costs associated with public service employment under WIA are, therefore, allowable only when part of a disaster relief project. Some local zoning laws prohibit the operation of a facility serving youth near a store selling alcoholic beverages. Any Federal funds paying rent on such a facility in violation of the local zoning laws would not be allowable under the Earmark grant.

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## Specific WIA Conditions Affecting Allowable Costs

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In addition to the allowable cost provisions of the OMB circulars, WIA regulations contain a number of provisions related to allowable and unallowable costs and activities. Some of these provisions and restrictions may apply to your grant and are described below.

**Any legal expenses incurred for the prosecution of claims against the Government are unallowable.** This includes appeals to the administrative law judge of disallowed costs or other claims and civil actions where the Federal Government is a defendant [20 CFR 667.200(c)(6)].

**With four exceptions, the costs of construction or purchase of facilities are unallowable for all WIA Title I programs [20 CFR 667.260].** The exceptions are listed below:

- To meet obligations for access and accommodation under the Rehabilitation Act of 1973, as amended, and the Americans with Disabilities Act of 1990, as amended.
- Capital improvements of the following types of real property:
  - State Employment Service Agency real property (identified at WIA Section 193), or
  - Job Training Partnership Act-funded property transferred to WIA Title I programs.
- Jobs Corps facilities.
- To fund construction-related disaster relief projects.

Of these exceptions, it will be rare if more than the first and the last will apply to your grants. If you do incur costs that meet one of these conditions, you must follow the appropriate requirements for capital assets in the OMB circulars.

**WIA also prohibits certain activities. All costs associated with an unallowable activity are considered unallowable costs, regardless of their allowability under other circumstances. Some of these prohibited activities that you should know about are:**

**Employment-generating activities, including economic development activities.** An exception is made only for those employer outreach and job development activities directly

related to participants. Employment-generating activities are addressed in 20 CFR 667.262.

**Public service employment programs, except to provide disaster relief employment [20 CFR 667.264(a)(2)].**

**Employment or training programs for sectarian activities.** This section does not prohibit the provision of services by faith-based organizations, unless those services are sectarian in nature [20 CFR 667.266] [29 CFR 37.6(f)(1)]. *20 CFR 667.266 addresses the limitations related to religious activities as follows: “29 CFR part 2, subpart D governs the circumstances under which DOL support, including WIA Title I financial assistance, maybe used to employ or train participants in religious activities. Under that subpart, such assistance may be used for such employment or training only when the assistance is provided indirectly within the meaning of the Establishment Clause of the U.S. Constitution, and not when the assistance is provided directly. As explained in that subpart, assistance provided through an Individual Training Account is generally considered indirect, and other mechanisms may also be considered indirect. ...”*

There also are specific sanctions for violations of the unallowable activities requirements, one of which is disallowing the costs. ETA will require reimbursement for all disallowed costs resulting from an audit. The procedures followed by the Grant Officer to impose sanctions are listed in 20 CFR 667.510. The DOL regulations relating to audits under the Single Audit Act and the resolution of audits by DOL are to be found at 29 CFR Parts 99 and 96.

## **ITEMS OF COST**

The criteria contained in the OMB circulars on cost principles provide the basic guidance on determining whether costs are allowable and may be charged to your grant. Costs may be allowable per the OMB circulars, allowable per the circulars but with conditions, or allowable per the circulars but unallowable per the regulations. Similarly, some costs are allowable but only with prior approval of the ETA grant officer. *When in doubt, ask your assigned FPO citing your specific example.*

The circulars provide guidance on a number of costs and specify if the costs are allowable, unallowable, or what conditions must be met in order for you to charge your grant for them. In OMB 2 CFR 230, the guidance on selected items of cost is found in attachment B.

Exhibit 3 contains examples of some commonly incurred costs under your grant and highlights the applicable conditions. However, you should always consult the applicable circular to determine whether or not a particular cost is allowable.

### Exhibit 3: Items of Cost

Determining Allowable Charges to Your Grant

COST ITEM	CONDITIONS FOR ALLOWABILITY	NOT ALLOWABLE	REFERENCE
<b>Capital Assets Costs</b>	Approval of grant officer is required to purchase equipment. NOTE: When approved as a direct charge, capital equipment expenditures must be charged in the period in which the expenditure is incurred. See Chapter 5, pg. 50.	Land and buildings	2 CFR Part 230, Attachment B, Item 15, Equipment and Other Capital Expenditures
<b>Compensation</b>	Total compensation paid must be reasonable and paid in accordance with established written policies that are the same for the Earmark grant and other non-Federal work. Payments must be supported by documented and approved payrolls. Charges for individuals working on more than one program and/or activity must be based on a "personal activity report" that documents the amount of time worked on each activity.		2 CFR Part 230, Attachment B, Item 8, Compensation for Personal Services
<b>Interest</b>	Interest on payments for equipment bought on time payments is allowable as a direct cost under certain conditions (see relevant circular).	Interest on borrowed capital is unallowable.	2 CFR Part 230, Attachment B, Item 23
<b>Leasing</b>	Interest costs pertaining to capital leases and other lease-purchase arrangements must be reasonable and allocable to the grant.	Costs under lease- purchase arrangements or other capital leases for real property are unallowable. See appropriate circular for discussion of allowable depreciation & interest.	2 CFR Part 230, Attachment B, Item 43
<b>Preaward Costs</b>	Preaward costs are allowable with prior written authorization of the grant officer (only to the extent they would have been allowable if incurred postaward).		2 CFR Part 230, Attachment B, Item 36
<b>Public Outreach and Advertising</b>	Costs of advertising for recruitment of staff, acquisition of goods and services, or for other purposes specified in the grant are allowable (see relevant circular).	Public relations costs that solely promote the organization or do not directly relate to the grant are unallowable.	2 CFR Part 230 Attachment B, Item 1
<b>Training</b>	Staff training costs are allowable if relevant to the specific program or they result in increasing staff effectiveness.		2 CFR Part 230, Attachment B, Item 49
<b>Travel</b>	Travel costs must be reasonable and be necessary to effectively manage the grant, provide oversight, or measure program effectiveness. Air travel, when necessary, should be obtained at the lowest possible customary standard (coach or equivalent fare).		2 CFR Part 230, Attachment B, Item 51

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## COST CLASSIFICATION

Cost classification is the process used to assign costs to benefiting cost objectives. Costs charged to intermediate objectives are then allocated on some basis of benefit to the ultimate or final objective. There are also cost objectives associated with expense items and with the revenue sources used to pay for the expenses. For our purposes, the final cost objectives are the Earmark grant fund source, the Administrative and Program cost categories, and the budget line items (for expenses). Within the accounting system, these objectives may also summarize individual items of cost. ETA requires that you be able to show how costs were distributed across the two cost categories and eight budget line items that represent the budgeted direct costs. The sections that follow discuss what comprises these interim cost objectives.

### Cost Categories

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The cost categories for ETA grants are:

**Administrative costs—All costs associated with administrative functions as defined by WIA regulations**

**Program costs—All costs associated with operating the project described in your statement of work that are not administrative costs**

Your grant guidelines impose limits on the amount of money that can be spent for administrative costs, which makes it pretty important to track these costs. The WIA regulations define administrative costs at 20 CFR 667.220(a) as the allocable portion of the costs associated with specific functions and not related to the “direct provision of workforce investment services, including services to participants and employers.” This definition has two components. The first limits the types of costs that are considered administrative costs and functions. The second limits the types of organizations that must separately report administrative costs. In the case of Earmark grants, only direct grantees report administrative costs. **WIA considers administrative costs to be direct and indirect costs related to:**

- General administrative functions such as accounting, financial and cash management, procurement, property management, personnel management, and payroll.
- Audit functions and those duties associated with

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coordinating the resolution of findings originating from audits, monitoring, incident reports, or other investigations.

- General legal services.
- Oversight and monitoring of administrative functions.
- Goods and services used for administrative functions.
- Developing systems, including information systems, related to administrative functions.
- The costs of awards made to another organization for some or all of your administrative services (*for example, a payroll service for staff or participants*).

Any costs not defined as administrative functions are considered “program” costs and do not count against the cap on administrative costs.

You need to carefully review the type of work being performed on your grant to ensure that costs are appropriately charged. Staff and related costs should be classified against the appropriate cost category or program activity based on the job duties actually being performed and cannot be charged based on job title or the budget. If staff members perform duties related to more than one category or activity, then the costs should be allocated on the basis of actual time worked or another equitable method [20 CFR 667.220(c)(2)]. This means that if you have staff that work directly with your clients and also perform some of the administrative functions listed above, then you must charge the costs both to program and administration.

### Budget Line Items

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**The other set of cost objectives includes the budget line items for direct or shared costs that are identified on the budget form in your grant application (SF-424A). They are:**

**Personnel**—Wages/salaries paid to the employees of the organization who are directly involved in the grant implementation. These may be full- or part-time staff or staff who work on other projects simultaneously. The wages paid for the time worked on the Earmark grant are classified as personnel costs.

**Fringe Benefits**—The cost of benefits paid to the personnel referenced above. Examples of fringe benefits include the

cost of the employer's share of FICA, health insurance, workers' compensation, vacation or sick leave, holidays, or unemployment insurance.

**Travel**—The cost of travel for personnel referenced above.

**Equipment**—All equipment whose unit cost is greater than \$5,000.

**Supplies**—All consumable materials, equipment costing less than \$5,000, and other goods. Examples of supplies are copy paper, pens, pencils, any materials needed to conduct training, cleaning products, or desktop and laptop computers.

**Contractual**—The cost of any contract or subgrant agreement. Examples of a contractual cost would be the subgrant agreement with a partner to provide classroom training.

**Other**—Costs not fitting any of the above categories. Examples include rent for buildings used to conduct grant activities.

The Budget Information-Non Construction Programs Form (SF-424A) is completed as part of your Earmark grant application submission and requires that all your direct or shared costs for implementing your grant fit one or the other of the items above. Not only is this exercise essential at the time of planning your budget, it is also how your expenditures have to be tracked to comply with the Uniform Administrative Requirements (29 CFR Parts 95 or 97). Be sure to be consistent in each case, especially if you have a cost that could be classified in more than one category. This occurs when a cost corresponds to or “benefits” more than one cost objective. An example is when staff carry out both administrative functions and program functions. This type of cost would then need to be allocated in part to each cost category. If you are unsure about where a particular cost goes, either at the time you are developing your proposal or later when implementing your grant, ask your FPO.

### **Implications for Accounting for Grant Funds**

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Your accounting system must be able to account for your grant expenditures in terms of the above cost categories and budget line items. This is done through your organization's chart of accounts. A chart of accounts is a listing, usually numerical, that provides an organization with the proper codes against which to charge costs in the general ledger and to then report the financial results of operations. There is not a preferred or a best way to develop a

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chart of accounts to use in the classification and booking of costs to a general ledger or accounting system. Each organization must determine the various types of costs within the organization, not just the Earmark grant costs, and develop a chart of accounts that permits the organization to accumulate and track costs in the most efficient and effective manner possible. However, all charts of accounts should include at least the following classifications: funding sources, objects of expenditure such as salaries, and program activities (as necessary to report results). If you have only a single or a few funding sources then the use of the chart of accounts is the best way to account for the program activities.

Accounting by cost category or budget line items is problematic when the grantee has an accounting system that uses a list of cost objectives that don't match the cost categories and budget line items list cited above. Unfortunately, this is a frequent occurrence. For example, if your accounting system classifies consultants as personnel, not contractual, you will have to "crosswalk" consultant costs from your accounting system's chart of accounts' cost objective "personnel" to your grant report's cost objective "contractual."

There are several ways to do this. First, you can modify the coding structure in your normal chart of accounts. Coding in the chart of accounts entails setting up codes under each cost category in the chart of accounts that corresponds to the ETA cost categories. In this manner, a charge for consultants engaged by the Earmark grant would be assigned a code so that these costs would be automatically assigned to the "contractual" cost objective for Earmark reports.

The second means for crosswalking between your organization's chart of accounts and the Earmark reports is to develop a spreadsheet that links the accounting system to the ETA-9130 (the official grant expenditure report). If a linking spreadsheet is used, a clear audit trail must exist between the official books of account and the Federal reports.

Exhibit 4 is a worksheet that summarizes expenditures in terms of the cost objectives that meet ETA accounting requirements. Compare this worksheet with your accounting system's chart of accounts to see what the implications of this requirement will have on your accounting system.

## Exhibit 4: Cost Classification Worksheet

SECTION A – Summary Expenditures by Budget Categories			
	Quarter	Cumulative	Balance
1. Personnel			
2. Fringe Benefits			
3. Travel			
4. Equipment			
5. Supplies			
6. Contractual			
7. Other			
8. Total, Direct Cost (Lines 1 through 7)			
9. Indirect Cost (Rate %)			
10. TOTAL Funds Expended (Lines 8 through 9)			
SECTION B – Summary Expenditures by Cost Categories			
	Quarter	Cumulative	% of Total
1. Administration			
2. Program			
3. TOTAL (Must match line 11 above)			

Note: See WIA Regulation CFR 667.220(a) or “Quick Guide to Financial Management Requirements for Earmark Grants,” chapter 2, for a list of administrative functions.

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## SUMMARY

*In this chapter, you have learned the main guidelines for determining how grant funds may be used, and what allowable costs are. You have a summary of the OMB cost principles and the WIA regulations that limit the use of Earmark grant funds along with the legal citations and where you can get more information.*

*This chapter has also defined the cost categories and final cost objectives so that you can assess their implications for your accounting system. You also are alerted to the need for tracking your expenditures not only in terms of ETA's cost categories, e.g., administration, but also in terms of budget line items, e.g., personnel.*

*If you have any questions about what you read in this chapter, ask your FPO.*

## CHAPTER 3: COST ALLOCATION



### OVERVIEW

Allocability is one of the basic cost principles (discussed in chapter 2) used in determining whether costs are allowable to your Earmark grant. Allocability is defined as a measure of the extent to which a cost benefits the Earmark grant program in general and its objective of expenditure such as wages or supplies or training materials in particular. Any cost that does not benefit the project described in your grant cannot be charged to your grant. **IMPORTANT NOTE: Any allowable cost allocable to your Earmark grant may NOT be charged to any other Federal award to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.**

The total cost of your Earmark grant program consists of the allowable direct costs, plus the allocable portion of allowable indirect costs, less applicable credits. What this means is that you may charge and report allowable direct costs, a portion of any shared or indirect costs minus the amount of any credits. A credit is anything that reduces a cost. An example of a credit includes a rebate on the purchase of equipment or a refund on premiums paid for workers' compensation coverage.

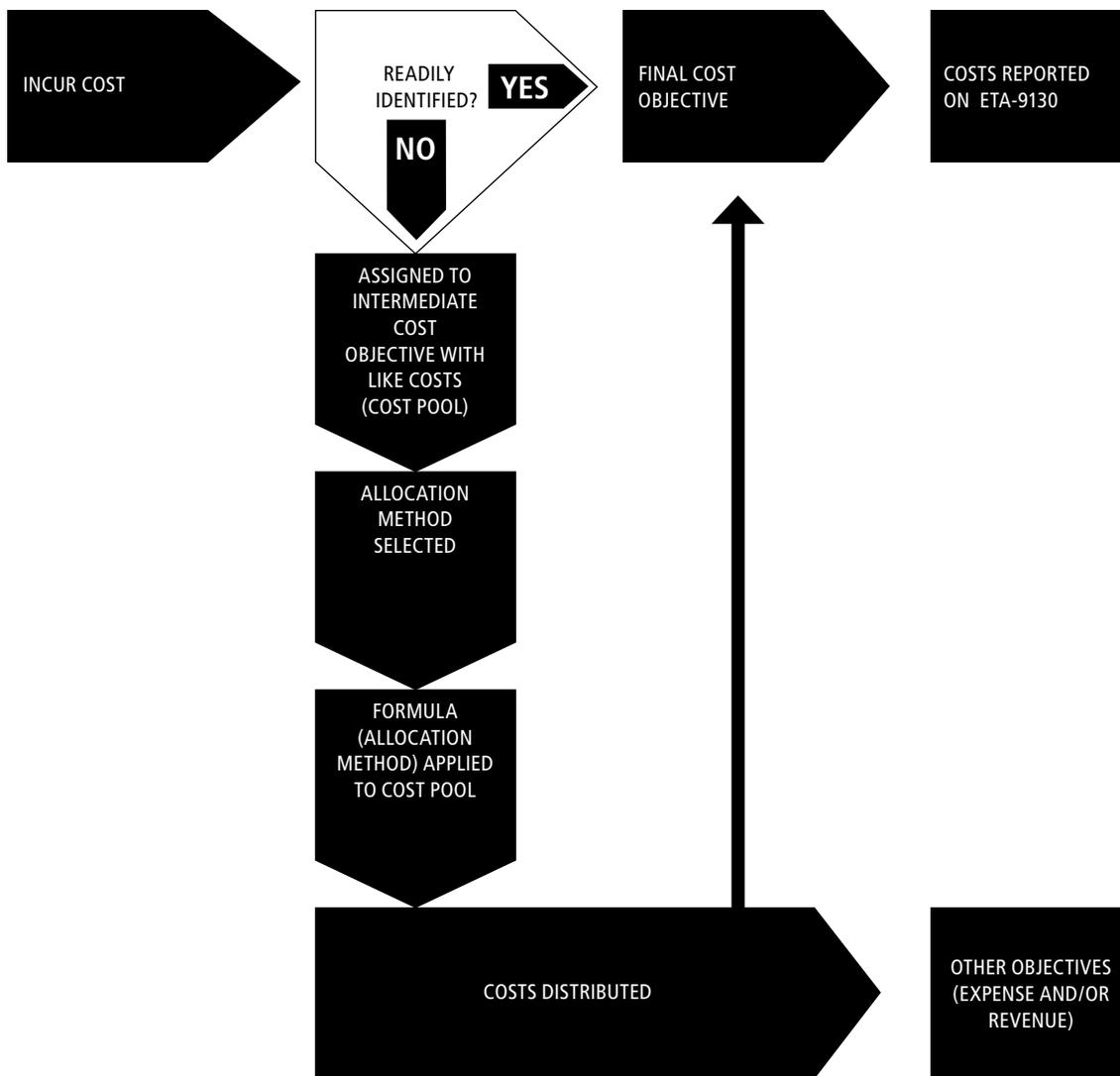
Direct costs are readily identified with and directly charged to a specific cost objective. Remember, a cost objective is an activity for which separate cost measurement is performed and is usually expressed as an accounting system code that identifies your costs in your general ledger. For example, a direct cost to your Earmark grant would be the cost of a piece of equipment such as a fax machine that was used only for the Earmark grant program. It could be charged to your chart of accounts object code for "materials/supplies," assuming your chart of accounts has such an item.

Costs that are not readily chargeable to a final cost objective are often aggregated into cost pools and are periodically allocated or distributed to final cost objectives using an appropriate allocation methodology. Cost pools can be established for any type of cost or grouping of similar costs when the cost(s) cannot be readily identified with a single final cost objective. This results in such costs being assigned to an intermediate cost objective represented by the cost pool. All pooled costs must ultimately be allocated to the final cost objectives in proportion to the relative benefits received by each cost objective. Exhibit 5 is a diagram that contrasts how an incurred expense flows through the accounting system as a direct cost or as shared or indirect cost.

It is a general financial management principle that costs should be treated as direct costs wherever possible. Cost allocation can be complicated and cumbersome. To the extent that you can assign costs DIRECTLY to your Earmark grant, the amounts that must be allocated will be reduced. We urge you to carefully look at how you account for the costs and charge them directly as much as possible.

In this chapter, we are going to discuss the different types of costs, the basic requirements for doing cost allocations, allocation bases, and allocation plans (including indirect cost plans).

Exhibit 5: Cost Allocation Process



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## BASIC COST ALLOCATION REQUIREMENTS

You now know that you are required to follow the cost principles contained in the appropriate OMB circular, as identified at 29 CFR 97.22(b) and 95.27. The circulars include guidance on distinguishing between direct and indirect costs. Beyond the general guidance provided in the circulars, there is no universal rule for classifying certain costs as either direct or indirect under every accounting system. For purposes of discussing cost allocation and cost pooling in this chapter, we have grouped costs into three categories. A brief description of each of these categories follows.

**Direct Costs** may be specifically identified with and assigned to a final cost objective, such as an ETA cost category or budget line item. Direct costs are charged directly to a final cost objective and do not require any further allocation or breakdown by funding source or cost category.

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

**Indirect Costs** are a type of joint costs that may originate in your own organization or in other departments of an organization that supply goods, services, or facilities. Most often, however, indirect costs are costs that are incurred to support the overall operation of the organization, and for which a direct relationship to your Earmark grant cannot be shown without effort disproportionate to the results achieved. In other words, it would take too much time or information to determine exactly how to charge the costs directly. Indirect costs are charged back to your Earmark grant and all of your other programs and activities using an indirect cost plan or rate. The development of indirect cost rate or allocation plans is contained in attachments C and E of OMB 2 CFR 225 and attachment A of OMB 2 CFR 230 and is discussed in further detail later in this chapter.

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The cost allocation process that we will describe in this chapter pertains to shared and indirect costs. There are essentially two main requirements that must be met in this process. They are:

- A means for showing measurable benefits from the cost; and
- Consistent treatment of the cost with like costs elsewhere in the organization and over time.

The rest of this section discusses these requirements in greater detail.

### Measuring Benefit: Critical Requirement and Central Task

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Measuring benefit is the critical requirement and central task to be performed in allocating costs. Throughout this chapter, we stress that costs are allocable to a particular cost objective to the extent of benefits received by that cost objective. Likewise, costs that do not benefit a particular cost objective are not allocable to and cannot be charged to that cost objective. The term “benefit received” is based in the cost principles that we discussed in chapter 2. (Remember that a cost must be necessary for the performance of your grant.) A method for measuring benefit is an integral part of the process for allocating costs if you are to adhere to the cost principles that are a requirement of the financial management system.

Measuring benefit is simplest when the cost is a direct cost. For a direct cost to be assigned in its entirety to a particular cost objective, the cost objective must receive the full benefit from the goods, services, activities, or effort that make up that cost. In this instance, measuring benefit entails no more than identifying the full cost of the activity and assigning it to the correct cost objective.

*Example: If you have staff that work only on the Earmark grant providing job development services to participants, the wage and fringe benefit costs for that staff are directly assignable to the program cost category of your Earmark grant. That cost objective receives the full benefit of the cost of the job development activity.*

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

*Example: If the job development staff in the above example also performed duties related to administrative functions at the same time, the costs would benefit more than one cost*

*category (administration and program) and, therefore, must be prorated among the benefiting cost categories. To determine each category's share of the cost, an allocation method must be identified that measures each category's share of the total benefit.*

It is possible and preferable in some cases to directly assign the correct portion of shared costs to each cost objective. For example, the staff in the above example could record the time spent performing each function and distribute the costs accordingly by completing a timesheet that shows which cost objective should be charged for each hour worked. Exhibit 6 is an example of such a timesheet. Remember that we have urged you to directly charge costs whenever possible.

**Exhibit 6: Time Report**

Name (Print)		ID No.	Supervisory Signature:															
			Overtime Approval:															
1st - 15th for the month of		20	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
16th - last day for the month of		20	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31

	Project Title	Program No.	Administrative	Hours by Day														Totals
				1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Direct Labor																		

I certify that this timesheet accurately reports my time worked during the period.	Signature
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It may, however, require too much information or time to directly assign each segment of the total cost to the benefiting cost objective. Such is the case when the executive director of the organization tries to determine how much of his time attending and preparing for board meetings concerns the Earmark grant as opposed to other agency business. When this happens and the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. This distribution is accomplished through the use of an allocation base. An allocation base is the means by which the pooled costs are allocated or distributed to final cost objectives and is discussed later in this chapter. Should you allocate the costs using a cost allocation methodology, it is preferable to use a single allocation base to distribute those costs, whenever possible. For

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example, you could use an allocation base of direct costs to distribute the costs that must be allocated.

**Caution:** For pooled costs, the cost elements that make up the pool must be scrutinized to ensure that all costs are allowable under your Earmark grant. Costs that are not allowable must be removed from the pool before the pooled costs are allocated to ETA cost objectives.

*Example: Your program is part of a nonprofit organization that charges the costs of the director to an administrative pool. Part of the director's duties is fundraising, which is an unallowable cost under the cost principles of OMB 2 CFR 230, Attachment B. That portion of the director's salary attributable to fundraising activities would have to be excluded from the pool prior to allocation to the Earmarks grant and other Federal programs. Therefore, if your organization has non-Federal fund sources as well as Federal grants, the director's cost would need to be allocated twice, once to Federal and other fund sources for which the costs are unallowable, using the pool, and once to fund sources for which the costs are allowable.*

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

### Consistent Treatment

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There are just a couple of other requirements that you must consider in cost allocation. The first of these is the concept of consistent treatment (one of the cost principles). For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. In other words, you cannot charge a cost as an indirect cost to one Federal grant and treat it as a direct cost in your Earmark grant. This would cause the Earmark grant to be charged for both direct and indirect costs whereas the other grant was only charged for indirect costs.

In addition, a cost that is allocable to your Earmark grant, another Federal grant, or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. This means that if you run out of funding for

another grant, you cannot charge any direct cost or any part of the indirect costs allocable to the other grant to your Earmark grant.

## **COST ALLOCATION PROCESS**

If you have shared or indirect costs that must be distributed or allocated, these costs are usually first accumulated in a cost pool or an intermediate cost objective and then allocated on a specified periodic basis to a final cost objective. An intermediate cost objective can be a cost pool or cost center established in your accounting system for the accumulation of costs assigned to such dissimilar categories as organizational units, functions, or items of expense. An example of an intermediate cost objective would be a facilities cost pool, where all the costs for rent, utilities, etc. would be charged and then distributed to a number of final cost objectives for reporting. Final cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts, and/or other activities. Your Earmark grant is an example of a final cost objective. Refer to chapter 2 where we also discussed cost objectives as they related to cost classification.

**There are many types of cost pools and they are acceptable if established and managed properly in your accounting system. Some examples of cost pools include:**

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

**CAUTION: Costs that may be pooled are limited to shared and indirect costs. Direct costs are not shared costs and should not be pooled but rather should be directly charged to the benefiting cost objective. Also, only actual, not budgeted, costs may be pooled and distributed to the various funding titles.**

Cost pools reduce some of the burden of tracking expenditures because they are vehicles for temporarily accumulating shared costs and indirect costs that later will be allocated to a particular program. As costs accumulate in the cost pool, a formula based on the benefits received by each program dictates how these costs will be distributed and reported. This eliminates the necessity of assigning each expenditure to a final cost objective at the time it is incurred.

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## ALLOCATION BASES

When costs are pooled instead of being directly assigned to a final cost objective, the ability to directly determine benefit for each item of cost is lost. Instead, the pool contains a group of common costs that are allocated by using some factor that provides an approximate measure of benefit. This approximate measure of benefit is called the allocation base. The base is incorporated into a mathematical formula which, when applied to accumulated cost in the pool, results in the amount to be distributed to each final cost objective.

**Example:** *The costs of the building rent and associated costs such as utilities are pooled for distribution to a number of Federal projects. One allocation base that is commonly used to distribute these types of costs is the level of occupancy, which is computed on the basis of square footage occupied by each project's staff as compared to the total occupied space. This results in a percentage attributable to each project. The percentage is then applied to the pooled costs to determine the exact amount attributable to each project. For example, the facilities pool will be distributed on the basis of square footage occupied by each project as compared to all square footage occupied (5,000 square feet from the table below, which includes a proportionate share of common space). This results in the following allocation:*

	Square Feet	Percent	Allocated Costs
Project 1	1,600	32	\$10,240
Project 2	1,200	24	7,680
Project 3	1,200	24	7,680
Project 4	1,000	20	6,400
<b>Total</b>	<b>5,000</b>	<b>100</b>	<b>\$32,000</b>

Many different types of bases can be used in allocating costs. You may use several different bases for allocating different types of costs depending on the type of organization, levels within your organization, types of cost to be allocated, and cost category. Whatever base is chosen, however, should be used consistently over time. The chart on page 34 shows a number of acceptable allocation bases that are commonly used.

An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit and if it results in an equitable

distribution of the costs of services rendered or goods provided. In general, the best base to use is the least expensive base with reasonably available and representative data. When choosing among available bases, a base should be chosen that is more directly related to, and the better measure of, the costs being allocated and the benefits being received. An allocation base must also be based on actual costs, time, or work performed.

**Example:** *Using the number of vouchers processed as the basis for allocating the costs of financial services is preferable to using the dollar value of those vouchers. The work performed in processing each voucher is fairly standard for each unit of work, regardless of the dollar value of the vouchers. As a result, the cost/benefit of the service is a function of the quantity of work performed, and not a function of the value of each voucher.*

Some suggested bases for allocation are shown on the chart on the following page. These are suggested bases only, and grantees are cautioned to review these bases for applicability to their programs.

### Unacceptable Allocation Bases

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

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

While you may use the same factor(s) as a base(s) as those included in the grant budget or other estimates of future occurrences, cost allocations using a base(s) taken from plans, budgets, or estimates usually cannot stand on their own as valid measures of benefit as they are not based on actual costs or information.

### Allocating Staff Salaries and Fringe Benefit Costs

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Staff costs, consisting of salaries and fringe benefit, are usually the

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## Exhibit 7: Suggested Bases for Allocation

<b>Accounting</b>	Number of transactions; direct labor hours; allowable survey methods
<b>Auditing</b>	Direct audit hours; expenditures audited
<b>Budgeting</b>	Direct labor hours
<b>Consumable supplies</b>	Total direct costs; direct labor hours
<b>Counselor</b>	Direct labor hours; number of participants counseled
<b>Data processing</b>	System usage; direct labor hours
<b>Disbursing service</b>	Number of checks issued; direct labor hours
<b>Intake</b>	Number of eligible participants; current period enrollments
<b>Office machines and equipment maintenance</b>	Direct machine hours; direct labor hours
<b>Office space</b>	Square feet of space occupied; staff salary distribution
<b>Payroll services</b>	Number of employees
<b>Personnel services</b>	Number of employees
<b>Postage</b>	Direct usage; acceptable survey methods
<b>Printing/reproduction</b>	Direct labor hours; job basis; pages printed
<b>Telephone</b>	Number of instruments; staff salary distribution
<b>Travel</b>	Mileage; actual expenses; direct labor hours
<b>Utilities</b>	Square feet of space occupied; staff salary distribution

highest ticket item for your grant and you must understand the requirements for charging these costs. The amounts you charge to your Earmark grant for personnel services, regardless of whether treated as direct or indirect costs, must be based on payrolls documented and approved in accordance with your established practice. Payrolls must be supported by time and attendance or equivalent records for individual employees.

**Issues for Verification of Time Distribution for Direct Costs.** In general, time distribution records or other verifiable means will be used to document how personnel services costs are charged to cost objectives. Timesheets and/or time and attendance records alone, however, do not necessarily satisfy the time distribution requirements. You should carefully review the requirements for documenting personnel services costs that are described in the OMB cost principles circulars. 2 CFR 230, Attachment B, Item 8 describes the requirements that must be met to support personnel compensation costs for nonprofit agencies. 2 CFR 225, Attachment B, Item 8 describes the requirements for governmental grantees. Both circulars require that personnel compensation costs be

supported by a time distribution system that includes personnel activity reports or periodic certifications. Adhering to these requirements is critical in charging staff costs and avoiding any liability in audit or monitoring.

A time distribution system is a formal method for distributing labor costs associated with specific programs. Time distribution can be documented in a variety of ways. However, the most commonly accepted method is to record actual time spent on each program, activity, or other cost objective during each working day (a timesheet). The most appropriate method to use will depend on the circumstances in each case.

When the personnel services cost of an individual staff person is chargeable in full to a single cost objective, it is not necessary to maintain a daily time distribution record for that staff person. Other documentation should be available to support the claim that the person's activities and costs do not need to be allocated to more than one cost objective. Other documentation could include negative time distribution reporting (only tracking that part of an employee's time NOT spent on a particular program or activity), approved and written office policies and procedures, or other written forms of task assignment.

Note: 2 CFR 225 requires a periodic certification (at least semiannually) that the employee worked solely on the grant being charged. A job description will not suffice for the required certification.

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

**Issues for Verifying Time Distribution for Shared Costs.** Salaries and wages of many employees are chargeable to more than one grant or cost category. Daily time distribution records, or some acceptable method of time sampling as discussed below, are the most common forms of documentation used in this situation. The method used must accurately reflect the actual time spent on each activity by each employee. Budget estimates or other distributions

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determined before the services are performed cannot be used to support charges to an ETA-funded program.

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

*Example: During the 80-hour, 2-week pay period, a staff person worked 35 hours on intake and case management activities (ICM), 35 hours on administrative activities (ADM), and took 10 hours of leave. The 10 hours of leave are shown on the chart as general hours and can be allocated among the cost categories as follows:*

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

## Common Errors

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The most common error in choosing a base is to obtain the data from a plan, budget, or other estimate of future effort or cost. In most circumstances, this type of base is not acceptable because it does not measure actual activity, effort, or cost, and, too often, later adjustments based on actual data are not made. In most instances, the most reliable measure of the amount of the cost incurred, the effort expended, and the benefit received can occur only when the activity is actually performed. While you will estimate (using position descriptions, organizational charts, or other documents) the percentage of time the director or other staff members will be involved in the Earmark grant in preparing your budget, you must eventually support and document charges to the grant on the basis of actual time worked on grant budget activities.

It is also common to determine the percentage of time staff will be involved in Earmark grant activities based on the budget. Charges based on such predeterminations are only acceptable if staff actually work the predetermined number of hours. If staff

members are instructed to charge each program according to the predetermined hours/percentages in the budget regardless of actual time spent on programs/activities, this results in unacceptable cost allocations. Again, any costs charged to the ETA-funded program must be adjusted as necessary to reflect actual time spent that benefited project activities.

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

## **COST ALLOCATION PLANS**

When you allocate costs among grants or program activities, you must describe this process in a cost allocation plan (CAP). A CAP is a document that identifies allowable indirect and direct costs and is used to accumulate and distribute such costs. The CAP also identifies the allocation methods used for distributing the costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. Formal accounting records must support all costs included in the plan.

### **Value of CAPs**

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**There are many reasons to have a CAP (besides the obvious fact that it is required). A CAP may have other benefits and advantages for your organization and a few of these are listed below:**

- Provides a clear and concise method, as a management tool, to develop budgets and prepare plans.
- Results in the equitable sharing of shared costs and indirect costs among all benefited programs and activities, beginning with their appropriate recognition in the budget process.
- Eliminates arbitrary methods sometimes used to account for all costs as direct costs in order to achieve full reimbursement.
- Establishes and reflects creditable fiscal accountability practices that recognize indirect costs and shared costs as a necessary cost of program delivery.
- Establishes and reflects financial management standards and practices that may be applied uniformly through the accounting and budgeting process.

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- Creates financial management structures that recognize that costs relative to programs or units of service consist of both direct costs and joint costs (shared costs and indirect costs).
  - Promotes the use of up-to-date, integrated accounting systems and procedures within the organization, so that shared and indirect costs can be identified and allocated across all programs and activities.
  - Meets Federal cost principles and standards that require approved plans as a prerequisite to claiming reimbursement of indirect costs.
  - Improves and standardizes fiscal management policies and practices.

## Two Types of CAPs

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A distinction is made between two types of CAPs—the indirect cost plan and the organizational CAP. The indirect cost plan is needed to allocate organization-wide and central services costs to individual departments within the organization. The indirect cost plan is described later in this chapter. The organizational CAP is needed to allocate costs within a department or organization to grants and other final cost objectives. The organizational CAP is the type of plan you must develop if you do not have an indirect cost rate and you have shared or indirect costs in your Earmark grant.

**A CAP should include at least the following elements:**

- Organization chart that identifies all departments, types of services provided, and Earmark grant and nongrant-funded staff functions.
- Description of the types of services provided and their relevance to the Earmark grant (generally called a Statement of Function and Benefit). This would include all revenue sources and cost objectives.
- Copy of official financial statements or budgets.
- Expense items included in the cost of the services. This would include all joint or pooled costs needing to be allocated (such as staff whose work benefits more than one cost objective, cost pools established for administrative costs, and other types of pooled costs).

- Description of the methods used in distributing the expenses to benefiting cost objectives (the allocation base). This requires identifying the basis for allocating each type of joint or pooled cost and the documentation for supporting each basis for allocation.
- Certification by an authorized official that the plan has been prepared in accordance with WIA or other authorizing legislation and regulations and State or other applicable requirements.

**You should also consider the following ideas when you write your CAP:**

- **Keep it simple.** The simplest and least costly method possible should be used, based on a measure of relative benefit received that will produce an equitable allocation of costs to programs and cost categories. This may entail using a single base to allocate shared costs or having only one or two cost pools.
- **Make it replicable.** The process that is developed must be able to be duplicated at any time and be able to accommodate changes in the organization or funding levels.
- **Consider what is required.** The required structure and capabilities of the accounting system must be considered in designing an operable cost allocation process.
- **Make changes prudently.** Changes in your CAP that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, should receive the necessary prior approvals, and should be justified and well documented.

### **Indirect Costs**

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Like shared costs, indirect costs are those costs that are not readily assigned or identified with a final cost objective. They are necessary to the general operation of the organization and the activities it performs. The cost of executive salaries, payroll, accounting, personnel, and general facilities and supplies are examples of the types of expenses generally considered as indirect costs. Indirect costs are charged to your project through the application of an indirect cost rate.

An indirect cost rate is a percentage representing the relationship between the organization's total indirect costs and the base of direct costs used. Expressed as a fraction, the numerator is the pool; the denominator is the base. The most common bases used are total direct costs and total direct personnel services costs, including (or excluding) fringe benefits. Total direct costs, when used as a base, is commonly adjusted to remove items such as equipment purchases which, while large in dollar amount, distort the base's ability to reflect the benefit received by direct cost activities and the activities reflected in the indirect cost pool. The amount of indirect costs attributable to a particular project is determined by multiplying the approved indirect cost rate by the applicable financial base of the grant. The financial base is part of the approved indirect cost rate plan.

**Example:** *Using a financial base of total direct costs, the following illustrates how the indirect costs are determined for a particular grant or project:*

Total direct costs	\$500,000
Indirect cost rate	15%
Indirect costs	5,000
Total project costs	\$575,000

Indirect cost rates are also characterized in terms of the way they may be used. The most common rates are provisional and final rates. A provisional rate is a temporary rate established for a prospective period of time and is based on estimated costs. A provisional rate will be adjusted at the end of the grantee's fiscal year based on the actual costs incurred by the grantee and a final rate is then issued. The rate and the base will determine the amount of indirect costs that may be charged to your Earmark grant. The system of rates and what rate is appropriate is determined through developing an indirect cost rate proposal. This proposal is submitted for approval to your cognizant Federal agency, which may or may not be DOL, and a rate is established for your grant(s). Once an indirect cost rate has been issued, the same rate is used to determine the amount of indirect costs for all Federal grant-supported activities, except as indicated in the indirect cost negotiation agreement between your organization and the cognizant Federal agency.

**In some cases, you will not have an approved indirect cost rate but must establish a rate to facilitate charging indirect costs to various Federal funding sources. Following are the requirements for establishing indirect cost rates:**

- If your organization is subject to 2 CFR 225 you must have either a formal CAP or an indirect cost rate if you have at least one source of direct Federal funding and more than one source of revenue (Federal and non-Federal). The plan must be maintained on file and is subject to cognizant agency review and approval.
- If your organization is subject to 2 CFR 230, you must have an approved indirect cost rate if you have at least one source of direct Federal funding and more than one source of revenue (Federal and non-Federal). If your organization does not have an approved indirect cost rate, you must seek approval within 90 days of your grant approval. This approval is sought from your cognizant agency (which is determined based on the Federal agency providing the largest amount of Federal funds). If your Earmark grant is your only Federal award, DOL will be your cognizant agency.

2 CFR 230, Cost Principles for Nonprofit Organizations, applies to determining indirect cost rates for nonprofit organizations. For assistance in preparing indirect cost rate proposals, nonprofit organizations should use the Indirect Cost Determination Guide published by the DOL Office of the Assistant Secretary for Administration and Management, Office of Cost Determination. The guide contains addresses and telephone numbers of the Office of Cost Determination, and is accessible at: <http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>.

This office also will provide you with technical assistance to develop the indirect cost rate proposal. Indirect cost rate proposals are required when a nonprofit organization has more than one source of funding and elects to recover indirect costs as well as the direct costs for meeting grant obligations. The Indirect Cost Determination Guide contains examples of how indirect cost rates are determined and calculated and is an excellent resource.

## SUMMARY

*As you can see, cost allocation is sometimes a complicated process. You must understand the requirements and how to select and apply an appropriate allocation methodology. The procedures you use to allocate costs must be described in a CAP. There are, however, resources for you to access if you are having difficulty in setting up a cost allocation system. The first place to go for information is your FPO, who will be able to guide you in seeking or provide you with technical assistance.*

## OVERVIEW

In this chapter, we will be discussing the requirements for and guidance on the procurement of goods and services. We use the term “procurement” to identify the process(es) that you use to acquire goods and services for the performance of your project from sources outside your organization. While this chapter uses the terms “contract” or “purchase order” when referring to the legal instrument which contains the terms and conditions relating to a particular procurement of goods or services, many direct grantees use procurement procedures to award “subgrants” to subgrantees.

The requirements for procurement are described in the Uniform Administrative Requirements at 29 CFR Part 97 for governmental grantees and 29 CFR Part 95 for nongovernmental grantees. While there are similarities in the requirements and they both address the requirements for procurement, these regulations are written and present the information quite differently. In this guide, we will therefore describe the systems and requirements for each type of grantee separately. You should follow the requirements that apply to your type of organization.

This chapter covers the various methods available for procurement and how to develop and maintain procurement policies and procedures for State and other governmental grantees, including Native American tribes. Then the same information is presented for nongovernmental grantees and subgrantees. The last two sections of the chapter apply to all grantees and subgrantees. The first of these sections contains contract clauses that must be included in your contracts and agreements. The second section reviews some specific procurement issues that have been troublesome for grantees in the past and includes a table contrasting the attributes of vendors and subrecipients.

In reviewing this chapter, you should always bear in mind that while there are many rules governing how procurements are to be conducted, the objective of almost all of these rules is to assure that you use competitive procedures to acquire goods and services for the grant project.

## CHAPTER 4: PROCUREMENT



## REQUIREMENTS FOR STATE AND OTHER GOVERNMENTAL GRANTEEES

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

### Procurement Policies and Procedures

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

- **A contract administration system is in place that ensures subgrantees and contracts perform in accordance with the requirements of any awards.**
- **A written code of conduct for employees engaged in the award and administration of agreements. The grantee/subgrantee must also include the standards for conduct specified at 20 CFR 667.200(a)(4), which address conflict of interest provisions for State and local area grantee board members.**
- **Procedures that detail the requirement for a review of prospective procurements to avoid the purchase of unnecessary or duplicate items, including analysis of lease vs. purchase.**
- **A process that promotes the use of intergovernmental agreements for procurement or use of common goods and services, as well as the use of Federal excess and surplus property wherever possible.**

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- **A process to ensure that awards are made only to responsible partners with the ability to perform successfully.** These standards should address integrity, compliance with public policy, past performance, and contractor resources (technical and financial) for prospective contractors.
  - **Documentation of each of the significant steps followed in making an award.** These must include rationale for method of procurement, selection of agreement type, selection or rejection criteria, and the basis for the contract price, including the independent agency’s estimate of price.
  - **A settlement process.** You are solely responsible for the settlement of all procurement actions, including those related to source evaluation, protests, claims, and disputes. Violations of law must be referred to the appropriate local, State, or Federal agency having jurisdiction.
  - **Protest procedures to handle disputes related to both award and administration of agreements.** Protest procedures must include available remedies, and the information related to protests must be disclosed to the ETA as your awarding agency. Protestors must exhaust all grantee and subgrantee administrative remedies before pursuing a protest with a Federal agency, and any protest to the Federal level must allege a violation of Federal law or regulation or of the governmental grantee’s violation of its own protest procedures.

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

## **Procurement Methods**

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Section 29 CFR 97.36(c) specifies that all procurement actions are to be conducted in a manner that provides for “full and open competition.” Within the context of open competition, four methods are discussed in Section 97.36(d) by which organizations may procure goods or services. They are described in the following paragraphs. Regardless of what method is used, grantees and subgrantees are reminded that cost plus a percentage of cost agreements are not allowable.

**Small Purchase.** “Small purchase” procurement method is a

relatively informal method used primarily to buy goods (supplies or equipment) when comparisons that would govern choice are fairly easily made. This is the case when price is the overriding factor and prices may be easily quoted and compared, delivery is standardized, and there are no performance outcomes dependent upon the content of the goods being procured. A good example is the purchase of equipment that can be bought from a number of vendors, all of whom can deliver identical items, leaving price the only basis for making a choice.

If “small purchase” procurement methods are used, price or rate comparisons from an adequate number of qualified sources must be obtained. Also, this method of procurement cannot be used when the purchase exceeds the small purchase threshold established locally or the Federal threshold of \$100,000. (Note: This is true even though 95.44(e)(2) has not been corrected to reflect the current level.)

Don't be confused by “small purchase” procurement method and the limits set under allowable costs rules for purchase of equipment. The former is simply the name for a method of procurement and has nothing to do with the requirements that must be met in order to buy equipment. The example below demonstrates this point.

***Example:** The agency has a need for automobiles. It compares the prices at three different sources and makes a selection based on price. The total procurement is approximately \$31,000, under the agency threshold of \$50,000.*

**Sealed Bids.** Under sealed bid procedures, bids are publicly solicited, and a contract is awarded to the lowest bidder, resulting in a fixed-price contract or a fixed unit price contract. This method is also used for procurements involving complex technical specifications such as information technology acquisitions. In order for this process to be feasible, three conditions must be met:

- Complete and realistic specification of required goods or services is available and part of the solicitation.
- There are at least two responsible bidders.
- The procurement may be made principally on the basis of price.

**The requirements for use of sealed bids are specific:**

- The Invitation for Bid (IFB) is publicly advertised and bids are solicited from an adequate number (more than two) of known suppliers.

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- The IFB contains all “specifications and pertinent attachments” and defines the items or services to be procured in sufficient detail for the bidders to respond properly.
  - All bids are publicly opened. A firm fixed-price contract is awarded to the lowest responsive and responsible bidder.
  - Any or all bids may be rejected if there is a documented reason.

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

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

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

**Example:** *An RFP is issued for prospective providers of training services for your Earmark grant. The RFP is published and the submitted proposals are reviewed for responsiveness to RFP specifications, proposed performance criteria, and costs. Awards may be made to more than one successful bidder, and either fixed-price or cost-reimbursement contracts may be awarded, depending on the uniformity and consistency among individual providers and considering such risk factors as occupations, pay rates, number of training hours, placement opportunities, etc.*

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

**The award is infeasible under one of the methods discussed above, and one of the following conditions apply:**

- The item is available from only one source.
- Public emergency precludes delay (for example, a flood at the local daycare center requires the immediate acquisition of additional services).
- The awarding agency authorizes the specific noncompetitive procurement (upon a formal request for approval).
- Competition is determined inadequate. This usually occurs after a competitive process has been used but there is only one bidder.

For all noncompetitive procurement actions, a cost analysis is required. This entails verification of the proposed cost data and evaluation of the specific elements of costs and profits, including comparison with the agency's prior independent price estimate. Profit (if any) must be separately negotiated in the award. Many times the proposed noncompetitive procurement is reviewed by an oversight board or agency.

Noncompetitive procurements are allowable under 29 CFR 97.36, but they are considered a "last resort" option and used only when there is a documented reason for sole source selection. Therefore, you should ensure that the competitive process is open and fair. Exercise caution when using noncompetitive procurements since they tend to raise suspicion simply because they are noncompetitive.

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*Example: An Earmark grantee solicits proposals for the provision of specialized youth services in a rural area, and only one bid is received. Rather than change the specifications and reissue the RFP, the organization may enter into an agreement with the single bidder. Documentation to support the decision will be required, i.e., a cost analysis that other procurement methods are infeasible and the awarding agency's (ETA) written approval of the procurement. If required by ETA, such an agreement would have to be approved by the awarding agency prior to execution.*

## **REQUIREMENTS FOR NONGOVERNMENTAL GRANTEES AND SUBGRANTEES**

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

### **Procurement Policies and Procedures**

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

- Each recipient/subrecipient must maintain written standards of conduct, including conflict of interest provisions and disciplinary actions for violations. The conflict of interest standards must also address the WIA requirements of 29 CFR 667.200(a)(4), which relates to State and LWIB members.
- Each recipient must maintain a system that provides for full and open competition whenever practicable and possible. Awards should be made based on the most responsive bid or offer and the one most advantageous to the recipient after consideration of price, quality, and any other factors contained in the solicitation.
- Each recipient/subrecipient must establish written procurement procedures that provide for:

- No purchases of unnecessary items; and
- Analysis of lease vs. purchase options to determine the most “economical and practical” procurement.
- Solicitations that provide for the following:
  - Clear and accurate descriptions of the goods or services being procured. The description must not contain features that restrict competition;
  - All requirements that must be fulfilled and all other factors used in evaluating bids or proposals;
  - Technical requirements described in terms of functions to be performed or performance required, including a range of acceptable or minimum acceptable standards;
  - Specific features of “brand-name or equal” descriptions, if included in the solicitation;
  - If procuring goods or certain types of services, the acceptability of metric measurements; and
  - Preference for ecologically sound and energy-efficient products.

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

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

### **Procurement Methods**

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

The small purchase threshold for Part 95 grantees and subgrantees is \$100,000. You are again cautioned that a particular

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organization's small purchase threshold may be lower.

While there is not a requirement for prior approval from the awarding agency, unless the awarding agency specifically requires such an approval for noncompetitive procurements, any such procurements are always subject to review by the awarding agency [29 CFR 95.44(e)]. ETA may add prior approval requirements to grants and subgrants at any time.

## **REQUIRED CONTRACT AGREEMENT**

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

- For all contracts in excess of the small purchase threshold, administrative, contractual, or legal remedies where contractors violate or breach contract terms. The clause must also provide for sanctions or penalties, as appropriate.
- Termination for cause and for convenience by the awarding agency, including the process for exercising the clause and any basis for settlement (applies to contracts in excess of \$10,000 (Part 97) or contracts in excess of \$100,000 (Part 95)).
- Access to records by the awarding agency, the grantee, DOL, or the Comptroller General of the United States for the purposes of audit, examination, excerpts, and transcriptions (for other than small purchase transactions).
- Notice of awarding agency requirements and regulations related to reporting.
- Notice of awarding agency requirements and/or regulations related to patent rights, copyrights, and rights in data.
- Record retention requirements as specified in 29 CFR 97.42 or 29 CFR 95.53.
- Compliance with Equal Employment Opportunity provisions in Executive Order (E.O.) 11246, as amended by E.O. 11375 and supplemented by the requirements of 41 CFR Part 60.

These are codified for DOL programs at 29 CFR Parts 33 and 37.

- Compliance with Sections 102 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 328 and 333) (all contracts in excess of \$2,500 that involve employment of mechanics or laborers and all construction contracts in excess of \$2,000).
- Compliance with the applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act, Section 508 of the Clean Water Act, E.O. 11738, and Environmental Protection Agency regulations (40 CFR Part 15) (applies to contracts, subcontracts, and subgrants in excess of \$100,000).
- Mandatory standards and policies related to energy efficiency, which are contained in the State energy conservation plan issued in compliance with the Energy Policy Conservation Act (Public Law 94–163).
- A provision requiring compliance with the Byrd Anti-Lobbying Amendment (31 U.S.C. 1352). This requirement is also found in 29 CFR Part 93.
- A provision requiring compliance with the debarment and suspension requirements (E.O. 12549 and 12689). This requirement is also found in 29 CFR Part 98.
- Compliance with the provisions of the Davis-Bacon Act for construction contracts, in excess of \$2,000.
- A provision requiring compliance with the Copeland Anti-Kickback Act (construction and repair awards).
- You must also use the contract provisions to include other requirements of WIA or other ETA grant program, as appropriate. These include provisions related to the following:
  - Applicability of the appropriate ETA program and administrative regulations; and
  - Audit requirements of 29 CFR Parts 96 and 99.

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## ADDITIONAL ISSUES WITH PROCUREMENT

### Program Income Earned by Subrecipients

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If you enter into a fixed-price agreement with a governmental or nonprofit agency that results in their earning revenues in excess of their actual costs incurred, the excess revenues are considered to be program income [20 CFR 667.200(a)(6)]. Any such fixed-price agreements should reference this requirement and provide for a mechanism to report the use of the program income.

### Presumptive Service Providers

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Often, you will identify potential partners in your project in developing your grant proposal. Inclusion of the organization as a potential provider of services under your Earmark grant does not constitute prior approval by the ETA of a sole-source procurement with that organization. ETA expects that in the development of program services under the Earmark grant, you will comply with the procurement requirements. You must have documentation to support the fact that the partner was selected through a competitive process or that you have complied with the requirements for a noncompetitive procurement that were discussed in this chapter. You should review the clause that deals with this requirement in your grant agreement.

### Differences Between Vendors and Subrecipients

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Your procurement of goods and services will result in a relationship with the provider of such goods or services that are characterized as either a vendor or a subrecipient relationship. The applicability of WIA, its regulations, and other program regulations (including the OMB circulars) is limited to recipients and subrecipients funded by those programs. Thus, the distinction between subrecipients and vendors becomes critical to the program. Payments received by a vendor for goods or services are not considered to be Federal awards. The discussion of subrecipients and vendors on the following pages are drawn from the requirements for audit at 29 CFR 99.510. They are included in this guide to assist you in making the proper characterization of your relationships with providers.

**Subrecipients.** A subrecipient is a legal entity to which a subaward of Federal funds is made and that is accountable to the recipient for the use of the funds provided. A Federal award to a subrecipient is

indicated when the organization performs the following activities:

- Determines eligibility for the federally funded program;
- Measures its performance against the objectives of the Federal program;
- Is responsible for programmatic decision making;
- Adheres to applicable Federal program compliance requirements (for example, the regulations); or
- Uses the Federal funds to carry out a program of the organization as opposed to providing goods or services for a program.

**Vendors.** A vendor is a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. The vendor, however, is not subject to the Federal compliance requirements of the program. The organization will be characterized as a vendor when the payment made for goods and services is to an organization that performs the following activities:

- Provides the goods and services within normal business operations;
- Provides similar goods or services to many different purchasers;
- Operates in a competitive environment; or
- Provides goods or services that are ancillary to the operation of the Federal program.

In making the determinations as to which entities are subrecipients and vendors, you should take into account all of the characteristics related to the type of provider. When deciding whether a vendor or subrecipient relationship exists, it is the relationship that matters, not the label on the award document, be it grant, contract, subgrant, or subcontract. No one factor should be taken in isolation; all the applicable criteria for each decision should be reviewed. However, under no circumstances should a designation of vendor be made for providers that have a financial or performance requirement related to eligibility or selection of participants. As previously stated, the designations of subrecipient and vendor relate to type of product or service provided, and not to the type of agreement document used or whether that agreement is called a contract or a subgrant.

The following review list may be of assistance in distinguishing subrecipients from vendors. This guidance is based on the definitions found in 29 CFR 99.210.

Subrecipient and Vendor Distinctions

Factor	Vendor	Subrecipient
Activity	Sell deliverables (goods/services)	Provide services
Assistance Arrangement	Buyer-seller	Financial assistance to operate a program
Closeout Package	Final invoice	Comprehensive
Control	Control is outcome focused	Control is on process
Development Costs	Absorbed	Controlled
Extent of Flexibility	Bound to adhere to specific contract terms	Latitude to make decision within terms of agreement
Federal Rules	N/A	Compliance
On-the-Job Training	Subgrantee developed (direct employer award)	Award to broker
Payment Basis	Is paid for specific deliverable	Is paid for services whether expensed as a deliverable or not
Product	Specific outcomes	Operate a program
Performance Measured	Against the specific requirements of contract	Against the performance outcomes of the financial assistance award
Product Development	Develops product and delivers from inventory	Controls development
Public Policy	Contract specific clauses	Standard statement of assurances
Purpose of the Award	To provide specific goods or services	To carry out a program goal
Receipt of Funds	Number of items delivered	Costs incurred
Risk	Risk to vendor	Share risk with awarding agency
Special Conditions	General	General and special conditions
Type of Training Referral	Slotting on an individual referral basis	Filling a class-sized training program
Type of Market	For sale within normal business operation; existing product tailored to the program solicitation	Customized for specific program purposes
Type of Product	Provide specific product or service ancillary to the Federal program	Design a program to meet a broader goal such as performance outcomes

## SUMMARY

*This chapter gave you a quick synopsis of basic information on government procurement requirements. Your type of organization will determine which set of requirements will apply; however, the issues highlighted in this chapter will apply to all grantees. Please consult your FPO if you have any questions about the information presented in this chapter.*

## CHAPTER 5: PROPERTY MANAGEMENT



### OVERVIEW

The Federal Government distinguishes among four types of property (or goods) that may be purchased:

- Real property;
- Equipment;
- Supplies; and
- Intangible property.

The following chart shows the definitions of the different types of property.

Types of Property			
Real	Personal		
Land, including land improvements, structures, and appurtenances thereto, but excluding moveable machinery and equipment (not allowable under the WIA program and your Earmark grant)	Tangible		Intangible
	Nonexpendable (Equipment)	Expendable (Supplies)	Without physical existence: patents, trademarks, or copyrights that are produced or acquired under the grant
	Useful life of more than 1 year and a unit acquisition cost of \$5,000 or more	All else	
Requires approval of the Grant Officer	No prior approval		

Note: Debt instruments and inventions are classified as intangible property under OMB Circular A-110 and 29 CFR Part 95, and are excluded from the supplies category.

These requirements are described in the DOL grant management regulations:

- The Part 97 regulations address property requirements for governmental organizations at Sections 97.31 (Real Property), 97.32 (Equipment), 97.33 (Supplies), and 97.34 (Copyrights).
- The Federal requirement that generally applies to organizations that are institutions of higher education, hospitals, and other nonprofit organizations is set out in the DOL regulations at 29 CFR Part 95. The property standards are found at Sections 95.30 through 95.37.
- In addition, there are a number of requirements related to intangible (or without physical existence) property such as copyrights.

The regulations on property management apply to the use and disposition of property acquired under an Earmark grant. The

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allowable costs requirements contained in the OMB circulars apply to the acquisition of property and set the conditions under which real property and equipment are acquired and are allowable costs. Because real property is not an allowable cost for Earmark grants, this chapter will discuss only equipment, supplies, and intangible personal property.

## **EQUIPMENT PURCHASED WITH GRANT FUNDS**

Equipment is defined at both 29 CFR 97.3 and 95.2 as tangible, nonexpendable personal property having a useful life of more than 1 year and an acquisition cost of \$5,000 or more per unit, including all costs necessary to make the property usable for its intended purpose. The prior approval requirements for capital asset acquisitions of \$5,000 or more are discussed in the OMB cost principles and Chapter 2: Cost Principles and Allowable Costs. NOTE: When approved as a direct charge to your Earmark grant, capital equipment expenditures must be charged in the period in which the expenditure is incurred.

If the cost of equipment was not charged directly to the grant or subgrant at the time of acquisition, then the equipment does not fall under the property management requirements of Section 95.34. The costs of equipment acquired with non-Federal funds may nevertheless be recovered as depreciation expense charged over the useful life of the asset or through a use allowance. For nonprofit organizations, the allowable cost guidelines in OMB 2 CFR 230, Attachment B, Item 11, Depreciation and Use Allowances, would apply. For other nongovernmental organizations, the appropriate cost principles apply.

The grantee organization holds title to equipment acquired with Federal funds (subject to the use and disposition conditions of 29 CFR 95.34(b) through (g)). Under these rules, as the grantee you have the right to use the property in the project for which it was acquired as long as it is needed, whether or not the project continues to be supported by ETA grant funds. When no longer needed for the original project, you must use the property in connection with other federally sponsored activities. Priority must be given to other activities sponsored by the ETA [29 CFR 95.34(c)].

While the equipment is being used for the project for which it was originally acquired, you must also make it available for other uses that do not interfere with project work. First preference will be given to other ETA-sponsored projects, with second preference to

other federally supported activities. When this occurs, you may charge these other programs for the use of the equipment. User charges are treated as program income [29 CFR 95.34(d)]. If you should use equipment acquired with grant funds to provide services to non-Federal outside organizations for a fee, the fee may not be less than private companies charge for equivalent services. This stipulation is in effect as long as the Federal Government retains an interest in the equipment [29 CFR 95.34(b)].

The regulations also are quite specific about your responsibility for managing the equipment and its use. The grantee organization must meet the following minimum management standards. These standards are similar to those required of non-State governmental entities under 29 CFR 97.32(d).

- Equipment records must be maintained that include the following data on the equipment: description; identification number; funding source, title holder; acquisition date; percentage of Federal participation in the cost; location, condition and last inventory date; acquisition cost; and ultimate disposition data, including date of disposal and sale price or current fair market value, including the method used to determine the value.
- A physical inventory of the equipment must be taken and the results reconciled with the equipment records at least once every 2 years. In this inventory, the grantee must verify the existence, use, and need for the equipment.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the equipment in good condition.
- If equipment is sold, proper sales procedures must be established that provide for competition to the extent practicable and that result in the highest possible return. (When acquiring replacement equipment, the grantee organization may use the old equipment as a trade-in or use the sale proceeds to offset the cost of the replacement equipment, subject to written approval of the DOL grant officer.)

When the equipment is no longer needed, the grantee must comply with the following disposition standards.

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For equipment with a current per-unit fair market value of less than \$5,000, the grantee has no further obligation to ETA. For property with a current per-unit fair market value of \$5,000 or more, the grantee may retain the property for other uses, provided that the grantee compensates ETA. The amounts due to ETA are computed by applying the percentage of ETA participation in the cost of the original grant or agreement under which the property was obtained to the current fair market value of the property. If and when the grantee has no further use for the property, the grantee must request disposition instructions from the grant officer. The following procedures, as prescribed in 29 CFR 95.34(g)(1) through (4), will apply:

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

## **FEDERALLY OWNED EQUIPMENT (PROPERTY)**

Federally owned equipment is equipment owned by the Federal Government and provided to grantees for use in a program or project. ETA does not anticipate that any federally owned equipment will be made available to Earmark grantees.

## **SUPPLIES**

For nongovernmental organizations, supplies are defined at 29 CFR 95.29(l) as “all personal property, excluding equipment, intangible property, and debt instruments . . . and inventions . . .” The standards for the use, management, and disposition of supplies are provided at 29 CFR 95.35. Upon acquisition, title vests in the grantee organization subject to management and disposition conditions. Grantees are also responsible for maintaining records sufficient to determine the amount of unused supplies on hand at the termination of their grants. A grantee must compensate ETA for its share of the residual inventory if the inventory is \$5,000 or more

in aggregate value upon termination or completion of the grant and if the supplies are not needed for any other federally sponsored programs or projects. If the residual supplies are worth \$5,000 or more, grantees must request and follow the disposition instructions from ETA.

## INTANGIBLE PERSONAL PROPERTY

### Copyrights

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

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

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

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

When copyrighted material is developed using your Earmark grant funds, DOL may make it available to any other entity requesting its use in a federally funded program without a licensing fee. Incidental costs of packaging, shipping, handling, etc., may be charged. If the material will be used for other than federally funded activities, you may charge a license fee or royalty. If the material will be used in federally funded activities, you will not be able to charge a royalty because royalties are not an allowable cost for copyrighted material developed through the use of grant funds. The income realized from the sale or licensing of copyrighted materials is not considered program income unless specified in the grant document.

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## Inventions and Patents

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Regulations applicable to nonprofits and small businesses are issued by the Department of Commerce at 37 CFR Part 401. Property requirements for inventions and patents are specifically treated in 29 CFR Part 95 only. ETA does not anticipate that inventions and patents will be associated with the Earmark projects.

## Data

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

## Title, Use, and Disposition

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

*Note: The Federal right to take title in these instances does not pass-through to vendors. Your organization must include such rights in the agreement with vendors, should there be a need.*

## GENERAL GUIDANCE REGARDING LEASING

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

However, for real property, administrative requirements make leasing the only option, as the costs of construction or purchase of real property are not allowable under a WIA program, including Earmark projects, except in certain limited circumstances. Further, allowable lease costs of real property are limited to operating leases, not capital leases. Capital leases are arrangements that result in the ownership of property, and are therefore, treated as purchases by the Federal cost principles. As a result, WIA Title I funds may not be used for lease payments under capital leases involving real property, although depreciation is allowable.

If Earmark activities occupy space under less-than-arm's length lease arrangements, the amount of rental cost which may be charged to the grant may not exceed the allowable cost of space if the property was owned by the occupant, which consists of depreciation or a use allowance, operation and maintenance costs, and allocable interest costs if applicable. Less-than-arm's length arrangements include occupancy of property owned by recipients or subrecipients as well as certain other relationships specified in 2 CFR 230, Item 37 and 2 CFR 2, Item 43. Grantees should refer to the circulars for a discussion of depreciation (2 CFR 225, Attachment B, Item 11; 2 CFR 230, Attachment B, Item 11), and rental costs (2 CFR 230, Attachment B, Item 37; 2 CFR 230 Attachment B, Item 43).

In operating an Earmark project, grantees are urged to carefully review any lease agreement to ensure that the lease is in compliance with the applicable requirements.

## **SUMMARY**

*Earmark grants generally are concerned with property in the form of equipment, supplies, or, in some cases, copyrights and data. This chapter explains the requirements for holding and transferring property owned by the grantee or owned by the Federal Government and used by the grantee. A brief overview of leasing that is permitted under the terms of the Earmark grants is included as well.*



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## Transactions

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The data items in this section of the ETA-9130 may be broken into several separate sections:

**Accrued Expenditures**—Items 10d–10i relate to the accrued allowable expenditures (also called outlays) attributed to the Earmark grant, net of any rebates or refunds received during the reporting period.

**Definition:** *Accrued Expenditures means the sum total of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, plus: net increase or decrease in the amounts owed by the grantee for goods and other property received; for services by employees, contractors, subgrantees, and other payees, and other amounts becoming owed for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments*

**Recipient Share**—Items 10j–10n relate to cost sharing or matching requirements. As no such requirements exist for your grants, this section is not applicable. On the electronic report format, these items have been greyed out.

**Status of Funds**—Items 10j–10p request information related to obligations and then breakouts of those obligations by total cumulative accrued expenditures and unliquidated obligations.

**Definition:** *Obligations are defined in the WIA regulations as “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 recipient or subrecipient during the same or a future period.” Obligations represent a legal commitment to make payment.*

**Definition:** *Federal unliquidated obligations are those obligations incurred by you as the grantee for which an outlay (expenditure) has not yet been recorded in the official accounting records. This amount should include the unexpended portion of awards to subgrantees and contractors.*

**Definition:** *Total Federal funds authorized [for this funding period] means the total amount of your Earmark grant, including any modifications.*

**Program Income**—Items 10q–10t request the amounts of program income both earned and expended under your Earmark grant. Item

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10q will always be greyed out as the ETA requires you to use the addition method for accounting for program income.

### Supplementary Information

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Item 11 requires information related to the indirect costs charged to your Earmark grant (and included in your total outlays). You are required to provide information on the type of rate applicable to your organization, the approved rate, the base against which the rate is applied, the total authorized indirect costs, and the amount charged to your Earmark grant (and included in your total outlays).

Item 12, Comments, provides space for any clarifying information. In this section, you are required to indicate the portion or amount of your total outlays classified as Administrative costs.

**To comply with the reporting requirements, you should consider a number of issues when developing procedures for reporting and in completing the reports. These are listed below.**

- The information used to prepare the ETA-9130 must come from your General Ledger or other official books of account as required by the Uniform Administrative Regulations at 29 CFR Parts 95 and 97. The information provided on your ETA-9130 submittals will be used to prepare reports to Congress by the ETA and by your independent auditors as the basis for audit. Therefore, it is essential that you pay close attention to maintaining the appropriate documentation that will allow both you and your awarding agency to trace each of your financial transactions to its source.
- If you maintain a cash-based accounting system, you may wish to use linking spreadsheets to compile the information from the general ledger and post to the reporting format to meet the accrual reporting requirements. You are cautioned that the use of linking spreadsheets must be documented in sufficient detail to trace the costs from the report in an audit or when monitored. The documentation should be written and, at a minimum, describe each link from the general ledger to the report. Another method of accumulating the costs would be through the use of the chart of accounts to directly post the costs to the general ledger. The use of the chart of accounts was discussed in the chapter on cost classification of this Quick Guide to Financial Management Requirements for Earmark Grants.

- To meet the requirement to report program income earned and disbursed, you must use the addition method in accounting for program income. Remember, your accounting system must record program income as it is earned and expended.

## **SUBGRANTEE REPORTS**

As the direct grant recipient, you are responsible for ensuring the timeliness and accuracy of required Federal reports. If you have subgrantees, you must establish reporting requirements for them that will enable you to submit the Federal reports no later than 45 days after the quarter end. To accomplish this, you may impose additional or more restrictive reporting requirements on your subgrantees. Remember, you should have a mechanism in place to report costs in the event of non-reporting by a subgrantee. Following are suggestions that may assist you in complying with the Federal requirements:

- You may wish to require subgrantees to submit reports within 20 days of the quarter end. This allows you adequate time to verify the accuracy of the financial data submitted by the subgrantee prior to Federal report submission.
- You may also wish to require subgrantees to report on a monthly rather than quarterly basis, with reports due 20–30 days after the month end. This option allows the grantee to have a preponderance of the financial data in hand in the event of non-reporting by a subgrantee. This option will also provide you with financial data that is useful in managing and monitoring subgrants.
- If your subgrantee is unable to produce a timely required expenditure report, you may wish to require subgrantees to provide a written estimate of accrued costs.

Whatever mechanism you use to gather information from subgrantees, keep in mind that you are responsible for reporting the total accrued expenditures of your grant, including all subgrantees.

## **WEB-BASED REPORTING**

The ETA has implemented Web-based reporting to make financial information related to grants accessible to both ETA and grantees, and significantly reduce the required paperwork associated with Federal financial reports. The Web-based reporting system is known as the Enterprise Information Management System (EIMS).

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All Earmark grantees with PY 2002 grants and forward are required to submit their financial reports using the EIMS.

To access EIMS and begin using the online reporting system, you must submit the names and other identifying information, including the e-mail address of the person who will be receiving the password (to enable data entry) and the PIN or personal identification number (to enable data certification) to the ETA. Instructions for submission of this information will be contained in your grant award letter.

You will also be provided with the software you will need to use the EIMS. The software contains instructions for system use and data elements have embedded instructions to assist you in entering accurate data. A number of edit checks and data controls are also built into the reporting system designed to assist in preventing errors. For example, reports must be entered sequentially (no skipping quarters); all fields must have a value and each report quarter must be certified.

You will have the ability to modify your reports until two consecutive reporting quarters are accepted and certified by the ETA Regional Office. Data is then considered “locked” from further modification. If modifications to a prior period are necessary, they must be accounted for in the current reporting quarter as reports are cumulative.

## **SUMMARY**

*The reports you submit to the ETA contain the financial activities of your grant, including a roll-up of your subgrantee financial activities. This report provides the ETA with information to assess how your grant is progressing, and it is important to remember that you must include all accrued expenditures in your reports.*

*Remember that the timeliness and accuracy of the reports you prepare and submit are critical to a successful audit process and to program management credibility. They are also critical to the success of reports ETA must make to the Congress. It is critical that you take the proper steps for providing financial information that is accurate and complete.*

## Exhibit 8: US DOL ETA Financial Report ETA Form 9130

(To be used by Grantees previously reporting on the SF-269 - unmodified)

### U.S. DOL ETA FINANCIAL REPORT

(Follow instructions on the back)

1. Federal Agency and Organizational Element to Which Report is Submitted		2. Federal Grant or Other Identifying Number Assigned by DOL			OMB Approval No 1205-0461  Expires 11/30/2009
3. Recipient Organization (Name and complete address including Zip code)					
4a. DUNS Number	4b. EIN	5. Recipient Account Number or Identifying Number	6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	7. Basis of Accounting <input type="checkbox"/> Accrual	
8. Project/Grant Period From: (Month, Day, Year) To: (Month, Day, Year)			9. Reporting Period End Date (Month, Day, Year)		
<b>10. Transactions</b>					Cumulative
<b>Federal Cash :</b>					
a. Cash Receipts					
b. Cash Disbursements					
c. Cash on Hand (line a minus b)					
<b>Federal Expenditures and Unobligated Balance:</b>					
d. Total Federal funds authorized					
e. Federal share of expenditures					
f. Total administrative expenditures					
g. Federal share of unliquidated obligations					
h. Total Federal obligations (sum of lines e and g)					
i. Unobligated balance of Federal funds (line d minus h)					
<b>Recipient Share:</b>					
j. Total recipient share required					
k. Recipient share of expenditures					
l. Recipient share of unliquidated obligations					
m. Total recipient obligations (sum of lines k and l)					
n. Remaining recipient share to be provided (line j minus m)					
<b>Program Income:</b>					
o. Total Federal program income earned					
p. Program income expended in accordance with the addition method					
q. Unexpended program income (line o minus line p)					
<b>11. Additional expenditure data required</b>					
a. Other Federal funds expended					
12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation:					
13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all expenditures and unliquidated obligations are for the purposes set forth in the award documents.					
a. Typed or Printed Name and Title of Authorized Certifying Official			c. Telephone (Area code, number and extension)		
			d. Email address		
b. Signature of Authorized Certifying Official			e. Date Report Submitted (Month, Day, Year)		
			14. Agency use only:		

Prescribed by OMB A-102 and A-110

Public reporting burden for this collection of information is estimated to average 30 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (1205-0NEW), Washington, DC 20503.

ETA-9130

Line Item Instructions for the U.S. DOL ETA Financial Report

FFR	Reporting Item Instructions	Cover Information
1	Federal Agency and Organizational Element to Which Report is Submitted	"U.S. Department of Labor Employment & Training Administration." PRE-ENTERED
2	Federal Grant or Other	Identifying number assigned by federal agency.
3	Recipient Organization	Name and complete address of recipient organization. PRE-ENTERED
4a	DUNS Number	Recipient organization's Data Universal Numbering System (DUNS) number or Central Contract Registry extended DUNS number. PRE-ENTERED
4b	EIN	Recipient organization's Employer Identification Number (EIN). PRE-ENTERED
5	Recipient Account Number or Identifying Number	Enter the account number or any other identifying number assigned by the recipient to the grant award. This number is strictly for the recipient's use only and is not required by DOL/ETA.
6	Final Report (Yes/No)	Select appropriate box. Check "Yes" only if this is the final quarter report for subject grant subaccount. For grants with multiple subaccounts, each subaccount may be indicated "final" at the time all funds in that subaccount are expended. However, the grant closeout will not occur until after the grant end date.
7	Basis of Accounting (Accrual)	Basis of Accounting is intended to read and be interpreted as "Basis of Reporting." ACCRUAL has been pre-entered on all reporting formats. DOL/ETA regulations require that all recipients report expenditures and program income on an accrual basis. For accrual basis reporting, accrued expenditures are recorded when a requirement to pay is established.  Note: Recipients are not required to change their accounting systems to accommodate DOL/ETA requirements that differ from their underlying accounting practices. Instead, recipients must furnish the required accrual information based on available documentation and best estimates.
8	Project/Grant Period, From: (Month, Day, Year)	The beginning date of the grant award as defined in the grant award document. PRE-ENTERED
	Project/Grant Period ,To: (Month, Day, Year)	The ending date of the grant award as defined in the grant award document, and the final date for which any accrued expenditures can be incurred under subject grant award. PRE-ENTERED.
9	Reporting Period End Date: (Month, Day, Year)	The last date of the quarter for which cumulative data is provided on subject FR. (Required reporting quarter end dates are contained in "Reporting Requirements" in first section of these instructions.) PRE-ENTERED
10	Transactions	Enter cumulative amounts in the Cumulative Column for each line item requiring data entry, as of the reporting period end date.  NOTE: If any line item does NOT require data entry for a particular grant/program, a ZERO must be entered. Line items which will be automatically calculated are grayed out, and no data entry will be permitted by reporting entity.  Cumulative data for current reporting quarter will become Previous Period Column in following quarter. This Period data will be automatically calculated. Use Section 12, Remarks, to provide any information deemed necessary to support/explain data provided in this section.
<b>Federal Cash</b>		
10a	Cash Receipts	Enter the cumulative amount of cash received from the Payment Management System (PMS) subaccount for subject grant, as of the reporting period end date.  Cash received is interpreted as meaning "cash deposited in grantee's bank account". Note: Recipients operating on a reimbursement basis will not show cash receipts until the cash is actually drawn down from the PMS subaccount for subject grant.
10b	Cash Disbursements	Enter the cumulative amount of cash disbursed from the cash receipts identified on 10a, as of the reporting period end date. The cash disbursements reported must be "all or a portion of" the actual cash "deposited in the grantee's bank account", and therefore can never be greater than the entry of cash receipts reported on Line 10a.  Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of cash paid out for indirect expenses charged to the award, and the amount of cash advances and payments made to subrecipients and subcontractors.
10c	Cash On Hand (Line 10a minus Line 10b)	This is an automatic calculation, which is Line 10a minus Line 10b. The cash on hand amount should represent immediate cash needs. If any drawdowns were made prematurely, or there are other reasons for any excess cash on hand, an explanation should be provided in Section 12, Remarks.

Federal Expenditures and Unobligated Balance:		
10d	Total Federal Funds Authorized	This amount is pre-entered for all grants except WIA formula-funded. This entry should agree with the grant award amount specified in the official grant award document for this subaccount. (Discrepancies must be identified by grantee and corrected, as necessary, by the grant officer.)
10e	Federal Share of Expenditures	<p>Enter the cumulative amount of accrued expenditures for allowable costs associated with the funds authorized on Line 10d. Accrued expenditures are the sum of actual cash disbursements for direct charges for goods and services; the amount of indirect expenses charged to the award; MINUS any rebates, refunds, or other credits; PLUS the total costs of all goods and property received or services performed, whether or not an invoice has been received or a cash payment has occurred. Accrued expenditures are to be recorded in the reporting quarter in which they occur, regardless of when the related cash receipts and disbursements take place.</p> <p>This entry will usually be greater than Line 10b, cash disbursements, because accruals (goods and services received but not yet paid for) must be included on this line item. In addition, recipients operating on a reimbursement basis must report all accrued expenditures (including cash disbursements) in the quarter in which they occur (no matter what source initially pays the costs).</p>
10f	Total Administrative	<p>Expenditures An entry is required for this line item for all grants subject to an administrative cost limitation. This is a new line item to capture administrative costs which were previously required to be reported in the Remarks section of the SF 269, or were otherwise required on the administrative expenditure line item of a modified SF 269.</p> <p>Specific grants, such as the WIRED grants, may be identified as exempt from breaking out administrative costs.</p> <p>Enter the cumulative amount of accrued expenditures for administrative activities. Administrative costs must be necessary and reasonable costs (direct and indirect) which are not related to the direct provision of services to participants, but relate to overall general administrative functions. Consult the appropriate program rules and regulations and/or grant award specifications for specific definitions and/or limitations on administrative costs. (This line item is a portion of the amount reported on Line 10e.) If no data entry is required, a ZERO must be entered.</p>
10g	Federal Share of Unliquidated Obligations	<p>Enter any obligations (legally binding commitments to expend subject grant funds authorized) for which an accrued expenditure has not yet been incurred, as of the reporting period end date. Unliquidated obligations should include amounts which will become due to subrecipients and subcontractors. On the final report, this line item should be zero.</p> <p>NOTE: For DOL/ETA grants, the only liquidation that can occur during closeout is the liquidation of accrued expenditures (NOT obligations) for goods and/or services received during the grant period. Do not include any amount on Line 10g that has been reported on Line 10e or 10f. Do not include any amount on Line 10g for a future commitment of funds (e.g., entire lease, budgeted salary costs) for which an obligation has not yet been incurred.</p>
10h	Total Federal Obligations	This is an automatic calculation, which is the sum of Lines 10e and 10g.
10i	Unobligated Balance of Federal Funds	This is an automatic calculation, which is Line 10d minus Line Item 10h.
Recipient Share:		
10j	Total Recipient Share Required	Enter the total match requirement, as identified in the grant award document and on the grant budget form, 424A. If subject grant has no match requirement, a ZERO must be entered.
10k	Recipient Share of Expenditures	<p>Enter any non-Federal funds expended, by recipient organization, for the purposes or activities of subject grant. Expenditures identified on this line item must be allowable costs which could otherwise have been paid for out of subject grant funds.</p> <p>These expenditures should include both match and other non-Federal leveraged resources.</p> <p>The value of allowable non-Federal in-kind match contributions should also be included. This entry may (and often will) exceed the required match entered on Line 10j.</p> <p>NOTE: Non-Federal funds expended for the purposes or activities of subject grant, which are allowable under all OMB Circulars, but which are not completely allowable under subject grant (due to a program specific restriction), should not be reported on this line item, but should be included in the quarterly progress report.</p>
10l	Recipient Share of Unliquidated Obligations	<p>Enter any obligations (legal commitments to expend non-Federal funds) for which an accrued expenditure has not yet been incurred, as of the reporting period end date.</p> <p>Do not include any amount on Line 10l that has been reported on Line 10k. Do not include any amount on Line 10l for a future commitment of funds (e.g., entire lease, budgeted salary costs) for which an obligation has not yet been incurred.</p>

10m	Total Recipient Share (sum of Lines 10k and 10l)	This is an automatic calculation, which is the sum of Lines 10k and 10l. NOTE: This amount may exceed the required match entered on Line 10j.
10n	Remaining Recipient Share to be Provided (Line 10j minus Line 10m)	This is an automatic calculation, which is Line 10j minus Line 10m. NOTE: If this amount calculates to a negative figure, a new edit check will set the value to zero.
<b>Program Income:</b>		
10o	Total Federal Program	Enter the total amount of program income earned as the result of allowable grant activity. The addition method for recording and reporting.
	Income Earned	Program income is required for all ETA programs/grants. For additional reference, program income is defined in the applicable program regulations and in 29 CFR 95.24 and 29 CFR 97.25.  Either gross or net program income may be reported. If gross program income is reported, the costs for generating the income should be included on Line 10e. If net program income is reported, the costs for generating the income are subtracted from the total income earned before entering the net amount on 10e. If no program income is earned, a ZERO must be entered.
10p	Program Income Expended	Enter the total cumulative amount of accrued expenditures incurred against the program income earned on Line 10o.  NOTE: Program income is to be expended during the same grant period in which it is earned.
10q	Unexpended Program Income (Line 10o minus Line 10p)	Income (Line 10o minus Line 10p) This is an automatic calculation, which is Line 10o minus 10p.
<b>11. Additional Expenditure Data Required</b>		
11a	Other Federal funds expended	Enter any other Federal funds expended, by recipient organization, for the same purposes or activities of subject grant. Expenditures included must be allowable costs which could otherwise have been paid for out of subject grant funds.  This entry should include expenditures of all Federally funded leveraged resources, whether or not such expenditures are the result of a leveraging requirement.  Other Federal funds expended, and reported on this line item, should not be included on the grant budget form, 424 A, but should be included in the quarterly progress report.
12	Remarks	Enter any explanations deemed necessary by the grantee or information required by DOL ETA.
13a-b	Certification	The authorized official certifies accuracy of reported data by entering assigned PIN.
13c	Telephone (Area Code, Number and Extension)	The telephone number of certifying official is automatically displayed.
13d	Email Address	The email address of the certifying individual is automatically displayed.
13e	Date Report Submitted (Month, Day, Year)	The date the FR is certified/submitted to DOL/ETA is automatically displayed.
14	Agency Use Only	This section is reserved for DOL/ETA use.

## **CHAPTER 7: AUDITS, AUDIT RESOLUTION, AND OVERSIGHT**



### **OVERVIEW**

As a direct recipient of Federal funds under your Earmark grant, you must conduct an audit of financial activities related to your organization and the funds you receive from Federal grants. This chapter provides you with information and guidance on ETA audit requirements, processes used for the resolution of audit findings (both questioned costs and administrative deficiencies), administrative appeals of the Grant Officer's decisions, and audit-resolution and related requirements that apply to Workforce Investment Act (WIA) funded awards. The chapter is divided into the following sections:

- Audits;
- Audit Resolution;
- Stand-In Costs and Audit Resolution;
- Appeals; and
- Debt Collection.

In addition, chapter attachments provide checklists, flowcharts, and sample letters you might use in resolving any findings related to audits of your subrecipients. These are the following:

- **Attachment 1—Audit Review Checklist for Single Audits;**
- **Attachment 2—ETA Audit Resolution Flowchart;**
- **Attachment 3—Sample Audit Transmittal Letter;**
- **Attachment 4—Sample Initial Determination Transmittal Letter; and**
- **Attachment 5—Sample Findings and Determination Format.**

### **AUDITS**

If you, or any of your subrecipient organizations, expend \$500,000 or more in Federal financial assistance funds (received from all Federal sources combined) during a fiscal year to operate one or more programs, you must undergo an audit. If you are a commercial organization directly funded by DOL, your audit requirements are found in the regulations at 29 CFR 96.32, which specify that DOL is responsible for audits of organizations not subject to the audit requirements of the Single Audit Act (SAA) Amendments of 1996. The WIA [20 CFR 667.200(b)(2)(ii)] requires commercial organizations that are subrecipients under WIA Title

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I programs and that expend more than the \$500,000 threshold of OMB Circular A-133 conduct an organization-wide or a program-specific audit.

If you pass down funds to a subrecipient, you must ensure the subrecipient has an audit conducted if they meet the \$500,000 expenditure threshold.

The Federal Chief Financial Officers' Council has developed a pamphlet and a brochure to provide additional guidance to Federal grant agencies and grantees/subgrantees subject to the requirements of the SAA. The documents provide grant recipients and Federal agencies with information on audit requirements, submittals, and contacts for additional information. These documents are available on the DOL Office of the Inspector General (OIG), Office of Audit Web site at [http://www.oig.dol.gov/public/programs/oa/single\\_audit/main.htm](http://www.oig.dol.gov/public/programs/oa/single_audit/main.htm).

## **Audit Requirements**

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

- Each entity that expends \$500,000 or more of Federal funds under more than one Federal program in any fiscal year must obtain an independent organization-wide financial and compliance audit (single) of such fiscal year.
- Any entity that expends \$500,000 or more under only one Federal program not subject to a requirement for a financial statement audit may elect to have a program-specific audit.
- Entities must submit audits to the Federal clearinghouse within 1 month after receipt of the auditor's report or no later than 9 months after the end of the auditee's fiscal year. Submission requirements are discussed in detail later in this chapter.
- Recipients of Federal financial assistance funds must also ensure that all subrecipients, including local area grantees, comply with subrecipient audit requirements,

such as undergoing a timely audit in accordance with the requirements of the SAA.

The DOL is responsible for the audit of commercial organizations that function as direct recipients of ETA grants at the discretion of the Secretary. The Secretary also has the discretion to conduct audits of commercial entities that are subrecipients [29 CFR 96.32]. In addition, OMB Circular A-133, Section 210(e), states that when a commercial organization is a subgrantee of a State, local government, or nonprofit agency funded by Federal funds, audit responsibilities must be specified in the agreement and may include “post award audits.” Under WIA, certain subrecipient commercial organizations must follow requirements specified at 20 CFR 667.200(b)(2)(ii).

No Federal audit requirements pertain to organizations that expend less than \$500,000 in Federal awards in a fiscal year or organizations that receive Federal funds exclusively as a vendor, regardless of funding level.

Chapters 3, 4, and 5 of the August 1999 Government Auditing Standards, commonly referred to as the General Accounting Office (GAO) “Yellow Book,” issued by the Comptroller General of the United States, provide general standards as well as standards for field work and reporting for financial audits. The same chapters also serve as guidance for financial and compliance coverage included in an organization-wide audit. Chapter 3 indicates that auditors are to choose and conduct auditing tests that, in their professional judgment, are appropriate to achieve the audit objectives and are designed to obtain sufficient, competent, and relevant evidence of a reasonable basis for their opinions, judgments, and conclusions. Chapter 4 indicates that auditors should design the audit to provide reasonable assurance of detecting misstatements that have a direct and material effect on the financial statements. To accomplish this, auditors should obtain a sufficient understanding of internal control to determine the nature, timing, and extent of the audit steps, tests, and procedures needed to assess the risk of noncompliance with laws and regulations. Chapter 5 indicates that auditors should include a written report on the scope of their testing of compliance with laws and regulations and of internal control over financial reporting. They are also to indicate whether tests they performed provided sufficient evidence to support an opinion on compliance or internal control.

The GAO recently revised the Yellow Book to issue new standards for auditor independence. The most significant change relates to the

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rules associated with non-audit or consulting services. Under the new standard, auditors should not perform management functions or make management decisions, and auditors should not audit their own work or provide non-audit services for clients where the amounts or services could be considered significant or material to the subject matter of the audit. Additional safeguards also must be met for non-audit services to be provided. The new standard, published as Amendment No. 3, is effective for all audits of periods beginning on or after January 1, 2003. The Yellow Book and the new standard may be accessed on the GAO Web site at <http://www.gao.gov/> under Other Publications, The Yellow Book.

### **Management and the Audit Environment**

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Auditing firms perform various types of audits. You must ensure the audit you obtain meets the mandatory standards for the organization and should specify to the auditing firm the type of audit required. For ETA-funded entities subject to audit requirements, only a single-audit is acceptable unless your Earmark grant is the only Federal program funds you receive. In such instances, you may elect to conduct a program-specific audit in accordance with 29 CFR 99.235.

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

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

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

Attachment 1 to this chapter is an audit review checklist you can use as a desk review instrument to determine the adequacy of the audit. If your auditor will conduct a program-specific audit, you should check on the availability of a program-specific audit guide to ensure the report is consistent with basic requirements. Whether a single audit or a program-specific audit is conducted, you and your auditors may wish to review the OMB compliance supplements applicable to WIA. The Web site for OMB compliance supplements is <http://www.gao.gov>.

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

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

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## Your Responsibilities as a Grantee

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As a recipient of Federal funds, you are responsible for a number of activities related to the audit process. These same activities apply to any subgrantees subject to the audit requirements of 29 CFR 99.200. Under the provisions of 29 CFR 99.300, you (or they) must:

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

You are responsible for obtaining the services of independent auditors to conduct the audit. Remember that you must follow applicable procurement procedures in obtaining these services. OMB prohibits audit firms that prepared indirect cost proposals or cost allocation plans (CAPs) from performing the organization-wide audit when indirect costs recovered by the auditee during the prior year exceeded \$1 million. A recent amendment to the auditing standards also prohibits audit firms that provide technical assistance from auditing their own work. You may wish to avoid using an audit firm already under contract to assist the organization in developing CAPs or indirect cost rate proposals, as this may give the appearance of a conflict of interest.

If you have subrecipients, you are considered a grantor agency and, as such, are responsible for ensuring the requirements of 29 CFR Part 99 are implemented by each of your subrecipients that expend \$500,000 or more in Federal award funds. In addition, you must assure the audits of any subrecipients are completed and findings resolved within 6 months of receipt of the audit report.

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As part of your audit responsibilities, you are responsible for followup and corrective action on all audit findings. 29 CFR 99.315(b) requires that each auditee prepare a summary schedule of prior audit findings that includes:

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

In addition, you must prepare a corrective action plan for each audit finding in the current audit. This corrective action plan must include the name of the person responsible for corrective action, the planned action, and an anticipated completion date. If you disagree with the audit finding, an explanation and specific reasons must be included in the plan. The summary schedule and corrective action plan must be included with the audit report as part of the total audit package submitted to the Federal clearinghouse.

You must submit audit reports within 9 months of the end of your organization's audit period or 30 days after receipt of the auditor's report. The requirements for submission of audit reports are found at 29 CFR 99.320, which requires that each auditee submit a data collection form and reporting package consisting of the financial statements and schedule of Federal expenditures, the auditor's required reports, the summary schedule of prior years' findings, and the corrective action plan, as specified at 29 CFR 99.320(b). Submit the entire reporting package to the Federal clearinghouse for acceptance and distribution to all Federal agencies that have provided funding. As the auditee, you are responsible for providing an adequate number of copies of the reporting package. If you are also a subrecipient of Federal funds, you must submit a copy of the reporting package to each entity from which you have received an award of Federal funds, if the audit includes findings related to the pass-through funds received.

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## AUDIT RESOLUTION

### Ensuring Integrity of Resolution Documents

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The administrative decision of an awarding agency (e.g., DOL or, for subgrantees, the Earmark grantee) to sustain or to reject the findings contained in an audit report of its subrecipient is called an audit resolution. The document issued to the subrecipient/auditee formally describing such findings and detailing such decision is often referred to as the determination. Whether such decision involves disallowance of costs questioned in the audit report, or non-monetary administrative findings, the awarding agency must identify an appropriate course of action to remedy the deficiency or variance. The remedy it selects to include in the Initial Determination or the Final Determination may be thought of as a sanction. We will discuss initial and final determinations in the Federal-level audit resolution section. Thus, issuance of a determination may be thought of as a decision with sanctions, and it must be accompanied by a notification of a right to appeal.

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

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

### ETA's Responsibility for Audit Resolution

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The ETA must resolve all findings presented in your audit reports and the DOL OIG audit reports. OMB Circulars A-50 and A-133 require Federal agencies to establish systems to ensure proper

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resolution and corrective action on audit recommendations. The ETA audit resolution process is described in 29 CFR Part 96, Subpart E.

Additional audit resolution provisions applicable to WIA programs are described in 20 CFR 667.510. These provisions mirror the Initial and Final Determination process described below and cover the ETA process for resolving monitoring and other oversight findings.

### **Resolution Responsibility of the Awarding Agency**

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Under 29 CFR 99.400, management decisions must be issued within 6 months after receipt of an audit report. The responsibility for resolving all findings related to ETA-funded programs and funds rests with the awarding agency. ETA is responsible for audits of its direct recipients, such as the Earmark grantee. Each awarding agency below the Federal level that awards funds to lower-tier subrecipients is responsible for the resolution of findings in the audits of their subrecipients. This means that Earmark grantees are responsible for audit resolutions for their sub-grantees and contractors. Audit findings, including administrative findings, must be resolved within 6 months after receipt of the audit report. This does not necessarily mean that corrective action will have been fully completed or that disallowed costs will have been paid within the same 6-month period.

### **Federal-Level Audit Resolution**

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

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

The resolution process to be followed by the Grant Officer for your Earmark grant is found at 20 CFR 667.510. Additional WIA requirements are also addressed further in this chapter. A schematic depicting the flow of Federal-level audit resolution is provided in

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attachment 2. Each step is also described in the following section on non-Federal audit resolution.

If your audit also includes coverage of and findings on subrecipient organizations (e.g., a State Department of Education), the ETA will ordinarily resolve such findings as part of its resolution activities.

Additional requirements exist for the resolution of audits under WIA Title I (which include your Earmark grant):

- The Initial Determination must provide for an informal resolution period of at least 60 days and, if the audit is resolved informally, the Grant Officer must issue a Final Determination that notifies the parties of the resolution. The Grant Officer may then close the file [20 CFR 667.510(c)].
- The Final Determination ordinarily is issued within 180 days from the date the audit is received by ETA from the DOL OIG. If the audit of your subrecipient is conducted by the OIG, the Final Determination will ordinarily be issued within 360 days.
- The Grant Officer has the right to issue an Initial and/or Final Determination directly to a subrecipient, consistent with the requirements of Section 184(d)(3) of the WIA related to waivers of liability.
- Under WIA Section 184(d)(3), the Grant Officer may waive the liability for a debt under the circumstances listed in Section 184(d)(2) and 20 CFR 667.720(c)(1–5). This section specifies when waiver request will be considered:
  - If misexpenditures occurred at the subrecipient level.
  - If misexpenditures did not constitute fraud and were not the result of gross negligence, willful disregard of the Act and/or regulations, or failure to follow accepted standards of administration.
  - If misexpenditures were due to fraud, they must have been perpetrated against the grantee or the subgrantee. The grantee/subgrantee must have forcefully pursued investigation, prosecution, and aggressive debt collection against the perpetrator; and must document that further attempts at debt collection would be inappropriate or futile.

- The debt associated with the misexpenditures must have been established through the established audit resolution process and the grantee's appeals process exhausted.
- The Grant Officer determines that further collection actions would be inappropriate or futile.
- The grantee formally requests the waiver and provides documentation to support its claim of compliance with these requirements.

ETA requires that waiver requests, in relation to an ETA audit resolution action, be made during the informal resolution period that follows Initial Determination issuance. If the waiver request relates to a debt established during the grantee's resolution process, a resolution report must accompany the request. Waivers of liability are also addressed later in this chapter in the debt collection section.

As a direct grantee, you may also request approval from the Grant Officer for any debt collection actions you plan to begin or forego. The request must include a description and an assessment of all actions taken by a subrecipient to collect the misspent funds. The Grant Officer may then determine that the grantee may forego collection. Criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion of waiver of liability above. This provision is addressed more fully in the debt collection section.

You should note, however, that the waiver of liability and the requests to forego debt collection apply only to the debts established at the subrecipient level. If you do not have subrecipients under your Earmark grant, these provisions will NOT apply to your grant.

### **Non-Federal Audit Resolution**

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If you do not award funds to a subrecipient, this section does not apply to your organization. However, since it is patterned on the Federal process, it may provide you with information that will be useful in your resolution with the ETA Grant Officer.

As part of your Earmark project, if you award Federal funds to a subrecipient, you are responsible for issuing a management decision on all audit findings that relate to the subgrant award within 6 months after receipt of the subrecipient's audit report. You must also ensure that the subrecipient takes appropriate and timely corrective action. The management decision follows no

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specified format; however, it must state clearly whether the audit finding(s) is (are) sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other corrective action. Thus, the management decision process constitutes audit resolution.

**If you directly award Earmark grant funds to a subrecipient, non-Federal audit resolution responsibility rests with you. No specific process is mandated, the audit resolution process for individual grantees may vary. However, the resolution process must accomplish the following:**

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

The suggested audit resolution system described in the following paragraphs is patterned after the Initial and Final Determination process used at the Federal level and described in the WIA regulations at 20 CFR 667.510. This process may be used at your level or at your subrecipient level.

**Pre-Resolution.** Before starting resolution, you should verify the acceptability of the audit report. Although the auditee must ensure the audit it obtains meets the required standards, you may wish to perform your own inspection as the awarding agency. As previously discussed, attachment 1 to this chapter is an audit review checklist that may be used as a desk review instrument to determine the adequacy of the audit.

**Controls Related to Audit Resolution.** Upon receipt of the final audit report, specific controls should be established to ensure that you conduct and finalize resolution of the audit findings within required timeframes. You should maintain an audit control log to include the following:

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

#### Suggested Procedure for Resolving Audit Report Findings.

This three-part process is the same process used by the DOL to resolve your audit as a direct recipient of ETA funds. The specific guidelines are found at 20 CFR 667.510. They include the Initial Determination, an informal resolution period, and the Final Determination. All these must be accomplished within 6 months of receipt of the final audit report. The awarding agency should provide the auditee/subrecipient with a copy of the audit report and allow a reasonable time for comment (see attachment 3 for a sample audit transmittal letter). Because the auditee/subrecipient is responsible for procuring the audit, it should already have a copy of the report. However, it may still be helpful to send a letter requesting comments on the audit findings before issuing an Initial Determination.

**Initial Determination.** The Initial Determination is a preliminary decision on whether to allow or disallow questioned costs and resolve any non-monetary (administrative) findings. It offers the auditee/subrecipient an opportunity for informal resolution rather than a formal hearing.

The Initial Determination, which addresses questioned costs and administrative findings, should be sent to the auditee/subrecipient within a reasonable time after the end of the subrecipient's comment period, the period that begins immediately after receipt of the audit report by the subrecipient. Send the Initial Determination via U.S. certified mail, return receipt requested.

**Disallowed Costs Findings.** Use the guidance below to evaluate the allowability of questioned costs in both the Initial and Final Determinations.

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In most instances, a cost will be disallowed if the basis is a clear and unequivocal violation of law and regulations. Costs can also be disallowed based on a violation of Federal grant terms and conditions that include the regulations and OMB circulars governing administrative standards and cost principles.

Any costs incurred for the Earmark grant must be supported by required source documentation (e.g., time and attendance records, bills and invoices, and canceled checks).

Some flexibility is available if the questioned cost is based on a violation of a subrecipient, subgrant, or contract requirement. Your subgrants and contracts may be more restrictive in the range of activities and types of cost permitted under that subgrant or contract than Federal or, if applicable, State rules or regulations. Therefore, it is possible that a cost could be unallowable under the subgrant/contract provisions but allowable under State provisions and/or the WIA regulations. In this instance, you may or may not disallow the costs. However, you cannot require less than full compliance with the WIA program legislation and its regulations. In resolving the audit, it is your responsibility to determine if contract or grant requirements more restrictive than the Federal (or State) requirements should be waived. The decision is entirely discretionary.

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

The audit resolution control log, discussed previously, should document the findings selected for urgent corrective action. In addition, it is strongly recommended that you coordinate the resolution of administrative findings with monitoring the subgrant program to ensure onsite follow-up verifies and documents corrective action. The guidance provided below can be used for the Initial and Final Determinations. For each administrative finding, note the following:

- The deficiency and corrective action required of the subrecipient. If the administrative finding was corrected during the comment period, or resulted from an informal resolution, indicate the manner in which the matter was resolved. If further corrective action is required, identify the specific action required in the Initial and Final Determinations, as appropriate.
- The dates for completion of the corrective action.
- The availability of technical assistance, if requested. (Maintain documentation in the file for the subrecipient audit to indicate when technical assistance was requested and provided. The subrecipient should provide progress reports on the implementation of corrective action for maintenance in the file.)
- Sanctions and remedial actions that may be taken against the auditee/subrecipient if the deficiency is not corrected. The completeness and specificity of this part of the Initial Determination is important in serious cases when it is likely that you, as the awarding agency, will take strong measures, including termination, reorganization, or partial funding if the deficiency is not corrected.

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

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

**Final Determination.** Send the Final Determination to the auditee/subrecipient within a reasonable time (not more than 6 months) after you receive the final audit report, by U.S. certified mail, return receipt requested.

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The Final Determination should:

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

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

You are also required to maintain an audit resolution file documenting the points listed above and containing copies of all formal correspondence relating to the resolution.

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

A sample Initial Determination transmittal letter is provided as attachment 4 to this chapter. Attachment 5 is a sample format that may be used for both Initial and Final Determinations.

**Post-Final Determination Follow-up on Uncorrected Findings.**  
Corrective action on audit findings should be initiated within the 6-month audit resolution period and proceed as quickly as possible. In some cases, corrective action on administrative findings may

not be completed within the 6-month timeframe. To ensure these findings are fully corrected, proper controls should be implemented that will track resolution during the post-Final Determination period. Follow-up should include requirements that oblige your subrecipients to report, at least quarterly, the status of uncorrected audit findings and corrective action. Follow-up tracking systems should include contact information that identifies the person (and telephone number) responsible for ensuring correction of the reported deficiencies and variances and should require at least quarterly updates of progress toward achieving correction.

Monitor the efforts to correct a deficiency on a continuing basis. Depending on the severity of the deficiency and the time of year, it may only be necessary to review the status of the corrective action during routine fiscal monitoring. Uncorrected administrative findings will be reported again in the single audit report for the next audit period.

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

Other Recommended Uses of the Initial and Final Determination Process. In addition to using this process to resolve subrecipient audits, you are encouraged to develop and use a process or procedure similar to the Initial and Final Determination processes described above for resolving monetary and non-monetary findings resulting from monitoring, incident reports, compliance reviews, and investigations, in addition to audits.

## **STAND-IN COSTS AND AUDIT RESOLUTION**

DOL is required to accept stand-in costs as a substitute for disallowed costs in audit resolution. The application of stand-in costs is considered by ETA during the audit resolution stage. If you agree that an auditor's questioned cost is unallowable or decide not to contest the finding and wish to propose the use of stand-in costs as substitutes for otherwise unallowable costs, you shall include a proposal with the audit resolution report or other document by which you provide comments to the ETA Grant Officer. If you are uncertain about the allowability of the auditor's questioned cost before receipt of the Initial Determination, you may make the proposal to use stand-in costs during the informal resolution period.

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## Criteria

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Stand-in costs are non-Federal costs that may be substituted for disallowed grant costs when certain conditions are met. To be considered, proposed stand-in costs shall have been actually incurred allowable grant costs that have not been charged to your Earmark grant. They must be included within the scope of the audit, and accounted for in your financial system required by 29 CFR Part 97 or 95 as appropriate. To be accepted, stand-in costs must come from the same year as the costs they are proposed to replace, and they must not cause a violation of the administrative or other cost limitations. Each of the separate criteria for consideration of proposed stand-in costs is discussed below:

- **Criterion: Must be allowable costs actually incurred for the benefit of the Earmark grant program and paid by a non-Earmark grant fund source.** Thus, for example, the dollar value of in-kind donations cannot be recognized as stand-in costs because, by definition, they are not costs incurred by the grantee or subrecipient. Also, inasmuch as costs must be net-of-credits under the governing cost principles, the dollar value of discounts cannot be considered as an allowable grant cost.
- **Criterion: Must have been included within the scope of your organization's single audit (not necessarily tested but potentially subject to testing).** This means the costs must be recorded and included in the financial statements presented by the agency to the auditor for audit. Failure to include unbilled costs disqualifies the costs for stand-in consideration.
- **Criterion: Must have been accounted for in the auditee's financial system.** This means that the unbilled expense must be recorded and documented in your official books of accounts. The costs cannot be presented as a separate consideration outside of your accounting system.
- **Criterion: Must be adequately documented in the same manner as all other Earmark grant-funded program costs.** This means that the unbilled expense must be treated in a manner consistent with cost principles affecting other expenses, including but not limited to the cost allocation methodology, cost classification methodology, and supporting documentation requirements.

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

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

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

- Uncompensated overtime;
- Unbilled premises costs associated with fully depreciated publicly owned buildings;
- Allocated costs derived from an improper allocation methodology; and
- Discounts, refunds, rebates.

Two other caveats should be mentioned. First, as suggested above, allowable stand-in costs may be used to trade or substitute for disallowed costs under certain conditions. The source of stand-in, however, is intended to be limited to the same organization that incurred the disallowed costs. Thus, you could not use costs incurred by a subrecipient to substitute for your disallowed costs. Second, if the cause of the disallowed costs was fraud, then the DOL will not ordinarily consider proposals of stand-in to substitute for such costs.

## **APPEALS**

Appeals regulations for the Earmark grantees are found at 20 CFR Part 667, Subpart H. If the ETA Grant Officer directly imposed a sanction or imposed a corrective action in the Final Determination, regulations state that appeals are to be submitted within 21 days

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of receipt of the Final Determination. Failure to request a hearing within 21 days means you have waived your right to a hearing. Under these provisions, the Administrative Law Judge (ALJ) is to issue a written decision no later than 90 days after the closing of the record. Should the appealing party be dissatisfied with the decision, it may appeal the decision to the Administrative Review Board (ARB). The appeal must be filed within 20 days of the ALJ decision and specify the procedure, fact, law, or policy being appealed. Any exception not specifically appealed is considered as a waiver. The decision of the ALJ will become the final agency action unless the ARB notifies each party within 30 days that the appeal has been accepted. The ARB has 180 days to issue a decision. If no decision is issued within that time, the ruling of the ALJ is the final agency action.

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

## **DEBT COLLECTION**

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

Within the ETA, responsibility for debt collection resides in the Office of the Comptroller. The ETA defers collection action when a recipient requests an ALJ hearing on the Grant Officer's Final Determination. Debts to the Federal government are most often repaid as a lump sum or as installments (generally over a period of 3 years or less) in accordance with the Federal Claims Collection Standards, 31 CFR Subtitle B, Chapter IX, Parts 900–904.

ETA will hold you liable for all misexpenditures of Earmark grant funds that have been awarded. This requirement is formalized in grant award documents or through regulation. The WIA regulations at 20 CFR 667.705 apply this requirement to all WIA Title I grant recipients. ETA's preferred corrective action for disallowed costs is non-Federal cash repayment. The ETA uses a process of three demand letters at about 30-day intervals

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to demand repayment. If no appeal has been filed, debts are considered delinquent, and subject to accrued interest charges 30 days after the date of the Final Determination. However, the ETA is willing to negotiate short-term installment agreements instead of full lump-sum repayments when the circumstances warrant. If the Final Determination has been appealed, debt collection efforts are suspended and no interest will accrue until the appeal has been resolved and a final decision rendered.

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

### **WIA Offset**

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“Offset” means that the DOL will withhold administrative funds from the current or a future grant, and you will need to expend non-federal funds to fully support administrative activities in place of the offset amounts.[20 CFR 667.740(a)(2)] Use of offset as a method for debt collection under WIA Title I programs is addressed in the Act at Section 184(c) and in the regulations at 20 CFR 667.740. Under these provisions, if you wish to utilize offset, you must make a formal request to the Grant Officer. If approved, the ETA will apply offset against the administrative funds. This option is available only if the debt is not due to gross negligence, a willful disregard of the Act and/or regulations, failure to follow accepted standards of administration, or a pattern of misexpenditure [20 CFR 667.740(a)(2)].

### **Advance Approval for Corrective Action**

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A direct grantee may also request approval from the Grant Officer for contemplated debt collection actions it plans to begin or to forego. The request must include a description of the establishment of the debt and all actions taken by a subrecipient to collect the

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funds. The Grant Officer may then determine that the grantee may forego collection. The criteria used in making the determination are listed in 20 CFR 667.730(b) and are substantially the same as described in the discussion on waivers. Again, the Grant Officer will approve the request only if the grantee demonstrates that further debt collection would be either inappropriate or prove futile.

**Example:** *A debt is established by you against a subrecipient for an overpayment to a vendor for training materials. The vendor has since gone out of business, and the subrecipient has documented all collection actions taken to date. The subrecipient has demonstrated that all appropriate internal controls existed to prevent overpayment, that the amount of the overpayment was small, that the vendor no longer exists as a business entity, and any further attempt at collection would prove futile. As the direct grantee, you may then request the Grant Officer to approve your proposed waiver of collection activity by the subrecipient.*

## CHAPTER 8: POSTGRANT



### OVERVIEW

As your project progresses, it may be necessary for you to make changes to your budget. This chapter provides information about the steps that need to be taken in order to modify your budget. In addition, as with all federally funded grants, your Earmark grant will end. This chapter also provides guidance and information you will need when your Earmark grant enters its closing stages.

All Federal grants have requirements for the maintenance of records related to grant activities and the formal closeout of grant financial records. If you have subgrantees, these same requirements apply to formalizing the end of your subgrants. The requirements that apply to the activities you will conduct after the end date of your grant are found in the Uniform Administrative Regulations. If you are a governmental organization, your requirements are found in 29 CFR Part 97; the rules applicable to all other types of Earmark grantee organizations are found at 29 CFR Part 95.

### HOW TO MODIFY YOUR BUDGET

ETA expects that grantees will account for and assess their expenditures against the budget categories on a regular basis. This will allow grantees to monitor their costs and make adjustments to the budget when needed. The budget must be modified through a formal written request to the Grant Officer if changes are anticipated in the Salaries, Fringe Benefit or Indirect Cost amounts. Otherwise written modifications are required if the grantee anticipates an increase or decrease by more than 20 percent in the other budget categories (i.e., Travel, Equipment, Supplies, Contractual, Other). When submitting a budget modification grantees must provide a revised SF-424A. Regardless of the proposed changes to the budget, the total amount requested cannot exceed the original grant award amount.

Example of Proposed Changes to a Budget Summary by Category Form

	(A)	(B)	(C)
1. Personnel	\$223,000	\$4,200	\$227,200
2. Fringe Benefits (Rate 22%)	\$49,060	\$924	\$49,984
3. Travel	\$2,393	\$0	\$2,393
4. Equipment	\$15,000	\$0	\$15,000
5. Supplies	\$15,180	\$1,950	\$17,130
6. Contractual	\$24,000	(\$4,200)	\$19,800
7. Other	\$43,800	(\$924)	\$42,876
<b>8. Total, Direct Cost (Lines 1 through 7)</b>	<b>\$372,433</b>	<b>\$1,950</b>	<b>\$374,383</b>
9. Indirect Cost (Rate 0%)	\$0	\$0	\$0
10. Training Cost/Stipends	\$229,250	(\$1,950)	\$227,300
<b>11. TOTAL Funds Requested (Lines 8 through 10)</b>	<b>\$601,683</b>	<b>\$601,683</b>	<b>\$601,683</b>

In addition to completing the SF-424A, grantees should provide a brief narrative description exploring the reasons or circumstances for the budget changes. All requests for budget modifications should be submitted to your Federal Project Officer (FPO) who will obtain Grant Office Approval.

## RECORD RETENTION

The requirements for record retention applicable to States, local governmental entities, and Indian tribes may be found in 29 CFR 97.42. These requirements apply equally to you and any subgrantees. The records that must be maintained include:

- Financial records (e.g., source documentation for expenditures, invoices, canceled checks);
- Program records (e.g., participant eligibility documentation);
- Supporting documents (e.g., contract agreements);
- Statistical records (e.g., EEO reports, MIS reports of program activities); and
- Other records (e.g., records that are required to be held by regulation or grant agreement or could be reasonably considered as pertinent to regulation or the grant agreement).

If your organization is an institution of higher education, a hospital, another nonprofit, or a commercial organization, requirements are found in 29 CFR 95.53. As with governmental grantees, these requirements apply equally to you as the grantee and any subgrantees you have. Again, requirements apply to “financial records, supporting documents, statistical records, and all other records pertinent to an award.”

Both 29 CFR 97.42 and 29 CFR 95.53 require you to retain records for 3 years following the date on which you submit the expenditure report containing the final expenditures charged to your grant to the ETA. For example, if your grant expired on June 30, 2002, and you submitted the final expenditure report on December 29, 2002, you must retain records related to the grant until December 29, 2005 (i.e., 3 years following December 29, 2002). These dates assume no audit/litigation problems that would extend the required retention period. If any litigation, claim, or audit is started before the expiration of the 3-year period, you must retain records until all findings have been resolved and final action taken.

### Subgrantee Level

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The rules apply equally to grantees and subgrantees under both administrative regulations. This may have a major effect on you as the direct grantee and require you to be cognizant of the time limitations on an individual subgrantee basis. Depending on the complexity and number of subgrants you award, a wide variance in record retention requirements might occur for your subgrantees. Without a mechanism to track record retention requirements, you run the risk that a subgrantee might destroy records that may be pertinent in the event of a later complaint or audit resolution process, even though you must maintain records until audits are resolved. You can resolve this problem by taking physical custody of any records you feel may fall within this category. While the probability of issues arising may be rare with your specific Earmark grant, you are advised to carefully review retention timeframes and how they will apply to each subgrantee.

***Example:** A subgrantee had a contract with an ending date of December 31, 2001. In accordance with your organization's closeout policy, the subgrantee submitted a final expenditure report on March 15, 2002, triggering the 3-year retention period. There were no subsequent audit issues. However, you do not closeout your grant by submitting your final expenditure report for the grant until August 15, 2002. Should any unresolved complaint issues exist at your level, records of the subgrantee could aid you in litigation; you would need to take physical custody of the subgrantee records on March 15, 2005 to ensure the records are available. You would retain the records through August 15, 2005, or until the litigation is resolved, whichever is later.*

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## Closeout and Audit Resolution

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Once the record retention period has been triggered through submission of the final financial report, the period does not start over if final expenditure reports are revised, if these revisions occur for the following reasons:

- Federal Grant Officers must closeout each annual grant agreement in a timely period after the award's funding period (3 years) has expired. If a final expenditure report is revised during this process, the record retention clock is not reset to zero on the date of the submittal of the revision. Such revisions are considered expenditure adjustments and do not alter the initial time period for record retention. You must retain records for 3 years from the original submission date of the final expenditure report.
- Generally, you must maintain records for 3 years following the submission of the final expenditure report or until all issues resulting from litigation, audit/audit resolution, or claims have been resolved and final action taken, whichever is longer. If you must revise financial reports based on resolution activities, the record retention clock is not reset to zero on the date you submit the adjusted financial report. For example, if you submit your final financial report on August 15, 2002, you must maintain the records until August 15, 2005. If an audit resolution is appealed and the final resolution requires you to revise your financial reports and is effective on June 30, 2003, the original date of August 15, 2005 continues to apply. However, if the final resolution of the appeal does not occur until December 15, 2005, that date becomes the end of the record retention period.

## Other Record Retention Rules

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In addition to the basic record retention requirements of 29 CFR 97.42 and 29 CFR 95.53, retention rules apply to specific records as follows:

- Real property and equipment records must be retained for 3 years after final disposition of the property [29 CFR 97.42(c)(2)] [29 CFR 95.53(b)(2)].
- WIA Title I Complaint Records and actions related to resolving complaints must be maintained for not less than 3 years from the date of resolving the complaint [29 CFR

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37.39]. In addition, grantees and subgrantees must follow the requirements of 29 CFR Part 37 if a WIA Title I grantee, as these regulations apply to the entire organization receiving WIA funds. These records should be maintained as a whole record system.

- Litigation/Audit records are to be retained beyond the prescribed period if any litigation or audit has begun, or if a claim is instituted involving the grant or agreement covered by the records. In these instances, records must be retained until resolution of the litigation, audit, or claim and final action is taken; or until the end of the regular 3-year record retention period, whichever is later [29 CFR 97.42(b)(2)] [29 CFR 95.53(b)(1)]. Failure to obtain an audit extends the record retention requirement indefinitely. A delay in obtaining an audit or in resolving audit findings extends the record retention period until all audit requirements have been satisfied and all findings have been resolved to the satisfaction of the awarding agency.
- Indirect cost records, such as computations or proposals, cost allocation plans, and supporting documentation and records, must be retained for 3 years from the date the indirect cost rate package is submitted for negotiation. If not submitted for negotiation, the records must be maintained for 3 years from the end of the fiscal/program year that contains the final grant costs.

### **Custody of Records**

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To avoid duplicate record keeping, you may make special arrangements with subgrantees, vendors, and others to retain records needed continuously for joint use. You may also request transfer of records to your custody when you determine that records possess long-term value. When records are transferred to you or maintained by you as the grantee, the retention requirement does not apply to the entity that relinquished its records.

When the relationship with a subgrantee is terminated, their responsibility for maintenance and retention of records does not end. However, if you terminate a subgrant, you may want to take custody of the records to assure they are available if needed in instances where the subgrantee is unable (e.g., going out of business) to physically retain them.

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## Record Storage

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You and your subgrantees must retain and store records in a manner that will preserve their integrity and admissibility as evidence in any audit/litigation or other proceeding. In the event of such proceedings, the burden of production and authentication of the records rests with the custodian of the records.

Microfilmed or photocopied records can be substituted for original records because they are generally accepted (unless questions as to authenticity are raised) as admissible for evidentiary purpose [29 CFR 18.1002-1003]. The ETA does not take a position on the use of electronic media for the storage of records, but this should not be construed to mean that they cannot be used. Due to rapid advances in technology, new computers cannot always open old electronic storage media. A better approach is for you and your subgrantees to specify the record storage criteria that must be met for whatever medium, including electronic media or other storage media, keeping in mind the length of time and changes that might affect access to records. When choosing media for record retention, the custodian must ensure security safeguards and protections sufficient for the records to be accepted by a court as evidence.

As in any case in which a record is maintained, the burden of producing and authenticating it is on the custodian of the record, and failure to authenticate the record will deny the custodian the right to use it for any evidentiary purpose. Thus, if you were to maintain your participant eligibility records on computer files and you are unable to show that the records were secure or were tamperproof, the records cannot be used to prove that participants were eligible for services they receive. 29 CFR 18.902 contains additional requirements related to the admissibility of records in evidence.

## Access to Records

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The DOL, Comptroller General of the United States, Earmark grantee, or any of their authorized representatives have the timely and unrestricted right of access to pertinent books, documents, papers, or other records of grant grantees, subgrantees, vendors, and others to make audits, examinations, excerpts, and transcripts. The rights of access are not limited to the required retention period but last as long as the records are retained. For the Earmark grants, which are WIA Title I grants, the director of the Office of Civil Rights has the same rights of access described above per the requirements of 29 CFR Part 37.

As the grantee, you have the right and responsibility to define conditions (i.e., time and place) for providing access to reports and records permitting the tracing of funds, with the exceptions specified in the Act at Section 185(A)(4). These same rights apply to your subgrantees.

The Freedom of Information Act and Privacy Act (5 U.S.C. 552 and 552a) generally do not apply to ETA-funded records in your possession. The provisions of these acts apply to grantee's or subgrantee's records only if they have been transferred to the Secretary of Labor. There may be limited occasions in which the privacy act could apply to records under the provisions of 5 U.S.C. 552a(m)(1).

Fees for information requests may be charged only to recover the costs of processing, such as copying costs.

### **Disaster Recovery**

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Occasionally, records are destroyed by fires, vandalism, or natural disasters (e.g., floods, storms, and earthquakes). Ensure your organization and any subgrantee organizations with record retention responsibility have a satisfactory plan of record recovery if critical records are lost. An example is offsite storage of computerized/microfilmed records.

## **CLOSEOUTS**

### **Grant Closeout System**

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In an effort to perform grant closeout management effectively and avoid cost overruns and deficits, ETA has designed and developed a Grant Closeout System (GCS) to enhance electronic reporting by the grantees and automate the grant closeout process. Grantees that use the Enterprise Information Management System (EIMS) to report quarterly financial statements are now required to complete and submit closeout documents electronically through GCS. Time requirements for electronic submission of these documents have not changed (within 90 days of the expiration of a grant.) The effective date for implementation of GCS was February 17, 2005.

The major functions in GCS include:

- verifying grants for closeout;
- notifying grantees of closeout reporting;

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- submitting closeout documents online;
  - standardizing closeout package certification process;
  - assigning closeout cases;
  - accepting closeout packages electronically;
  - tracking closeout documents;
  - closing or suspending expired grants; and
  - approving closeout reporting extensions.

A user's manual outlining the entire electronic closeout process is available online at [www.doleta.gov/grants/GCS.pdf](http://www.doleta.gov/grants/GCS.pdf).

### Closeout Requirements and Responsibilities

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Each grantee is responsible for developing and maintaining a system to comply with the closeout requirements specified at 29 CFR 97.50 and 29 CFR 95.71. The closeout requirements contained in the DOL regulations apply only to you as the Earmark grantee. Your subgrantees are indirectly affected, because you must establish a process that will ensure your own compliance with ETA's closeout requirements.

As stated above, the requirements for closeout of ETA-funded grants, including your Earmark grant, are found at 29 CFR 97.50 and 95.71. They are substantially the same for governmental and nongovernmental grantees and require the following:

- All obligations must be liquidated and final expenditure reports submitted within 90 days of the grant expiration date, unless the DOL extends the timeframe.
- The DOL must make prompt payment of any additional funds due you.
- You must promptly refund any funds not fully liquidated within the 90-day period.
- If you are a nongovernmental organization, you must account for both real and personal property acquired with Federal funds or received from the Federal Government [29 CFR 95.71].

- If you are a governmental organization, you must provide a list of federally owned property [29 CFR 97.50].

The requirements at 29 CFR 97.50 and 95.71 apply only to your grant with DOL. They do not apply to your agreements with subgrantees or your subgrantees' agreements with other organizations. You and your subgrantees are responsible for developing closeout procedures that adequately account for the financial activities related to the ETA-funded grants. In developing closeout procedures, you must also comply with the terms and conditions of the grant award as well as with the regulations.

The requirements for closeout flow down from the grantee to the subgrantee. Any delay in the timely and accurate submission of your federally required closeout documents may impact your ability to receive grants from the ETA in the future. Therefore, you are cautioned to carefully review all closeout instructions and letters received from the ETA.

The ETA currently utilizes two separate closeout reporting packages, one for governmental grantees and one for nongovernmental grantees. The closeout documents are discussed further in this chapter.

To successfully complete the Federal closeout process, you should adhere to the following:

- Grantee financial staff must be familiar with the terms and conditions and financial reporting requirements of the grant.
- To finalize the closeout process, the grant agreement must be updated through a modification, should there have been any changes in address, telephone numbers, signatory officials, etc.
- If indirect costs have been claimed, the indirect cost negotiation agreement or cost allocation plan (CAP) must be provided. If the rate was provisional, you are responsible for requesting a final rate from the appropriate cognizant agency. You must submit a proposal to your cognizant agency requesting final rates within 6 months after the end of the fiscal year. The closeout will be subject to revision by the ETA if the final rate is lower than the reported provisional rate. To the extent possible, you are urged to obtain the final indirect cost rate prior to closeout. If the final rate is higher than the provisional rate, and the rate is obtained subsequent to closeout, sufficient funds might not

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remain in the grant for payment. Conversely, if the final rate is lower than the provisional rate, the grantee must refund any indirect costs claimed in excess of the actual approved rate.

- All drawdowns must be made before the closeout documents are submitted. If refunds are due the DOL upon closeout, these are to be made electronically through the Department of Health and Human Services (DHHS)/ Payment Management System (PMS) in accordance with the grant drawdown procedures. Rebates, refunds, and credits received after the PMS is no longer available should be refunded by check or warrant.

## Two Closeout Packages Utilized by ETA

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The ETA currently uses two different closeout packages for grants. One package is for governmental grantees and the other for nongovernmental grantees. Each of the packages is described below.

**Governmental Grantees.** Among the forms required for the closeout of governmental grantees are the final financial report (the SF-269) and a federally owned property listing. ETA also requires a listing of equipment with a unit acquisition cost of \$5,000 or more, to which the DOL reserves the right to take title. The ETA closeout instructions will provide further guidance in finalizing the closeouts.

The costs of closeout may be charged to the grant for costs incurred during the 90-day closeout period. These costs may include costs related to staff reductions or office closings, staff costs to perform closeout activities, and audit costs. However, these costs do not include additional program or participant services costs.

Unliquidated obligations may be liquidated only until final reports are submitted.

As previously indicated, a copy of the indirect cost negotiation agreement or CAP must be submitted if indirect costs have been charged to the Earmark grant. You must submit a proposal to the cognizant agency requesting final rates within 6 months after the end of the fiscal year.

Final drawdowns should be made so that final grant costs equal final grant revenues. If a refund must be made to the DOL to achieve that equality, this should be made through the PMS as well.

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Instructions for the return of later adjustments or disallowances are provided.

**Nongovernmental Grantees.** Nongovernmental grantees must complete a different set of closeout forms. The package consists of the following forms:

- Grantee's Submittal of Closeout Documents;
- Financial Status Report (the appropriate QFSR for WIA grantees or the SF-269);
- If necessary, a copy of the approved indirect cost rate,
- Grantee's release;
- Grantee's assignment of refunds, rebates, and credits;
- Government property closeout inventory certification; and
- Grantee's closeout tax certification.

Each of these forms is described below.

**Grantee's Submittal of Closeout Documents.** A cover sheet that lists all the documents included in the closeout package. This sheet may also be used by the grantee to track the adequacy/accuracy of the subgrantee's closeout submittal.

**Financial Status Report.** The SF-269 is to be completed and marked as final as required by the reporting instructions. This report will be completed on a cash basis within the final closeout period.

**Indirect Cost Rate.** If indirect costs have been charged to the grant, a copy of the provisional or final rate must be included. If the grant is closed based on a provisional rate and the final rate is lower, the grantee is required to recalculate indirect costs and return all excess indirect costs within 45 days of the final rate approval letter.

**Grantee's Release.** This form allows you to certify the release of the ETA as the grantor agency from further monetary obligations under the grant. Certain specifically identified claims such as unclaimed wages (subject to escheat laws), worker's compensation claims, or other outstanding claims must be identified and the list attached to the grantee's release.

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**Grantee's Assignment of Refunds, Rebates, and Credits.** This form allows you to waive claim to any refunds, rebates, or credits received after the grant has terminated and assures prompt remittance to the ETA.

**Government Property Closeout Inventory Certification.** This form provides for an inventory of all real or personal property purchases acquired with grant funds or received from the Federal Government where the DOL reserves the right to take title, or a certification that no such property was acquired with grant funds.

**Grantee's Closeout Tax Certification.** This document provides assurances that you have complied with all applicable tax requirements.

In closeout, as with other subjects, you must take care in interpretation of applicable statutes and regulations to ensure you do not indiscriminately apply your requirements to your subgrantees and do not generate excess paperwork in the closeout process. You must develop timetables and procedures for both your organization and your subrecipients that will produce effective closeouts and meet the Federal final expenditure report submittal requirement of 90 days after the end of the life or expiration of a grant.

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## Attachment 1 - Audit Review Checklist for Single Audits

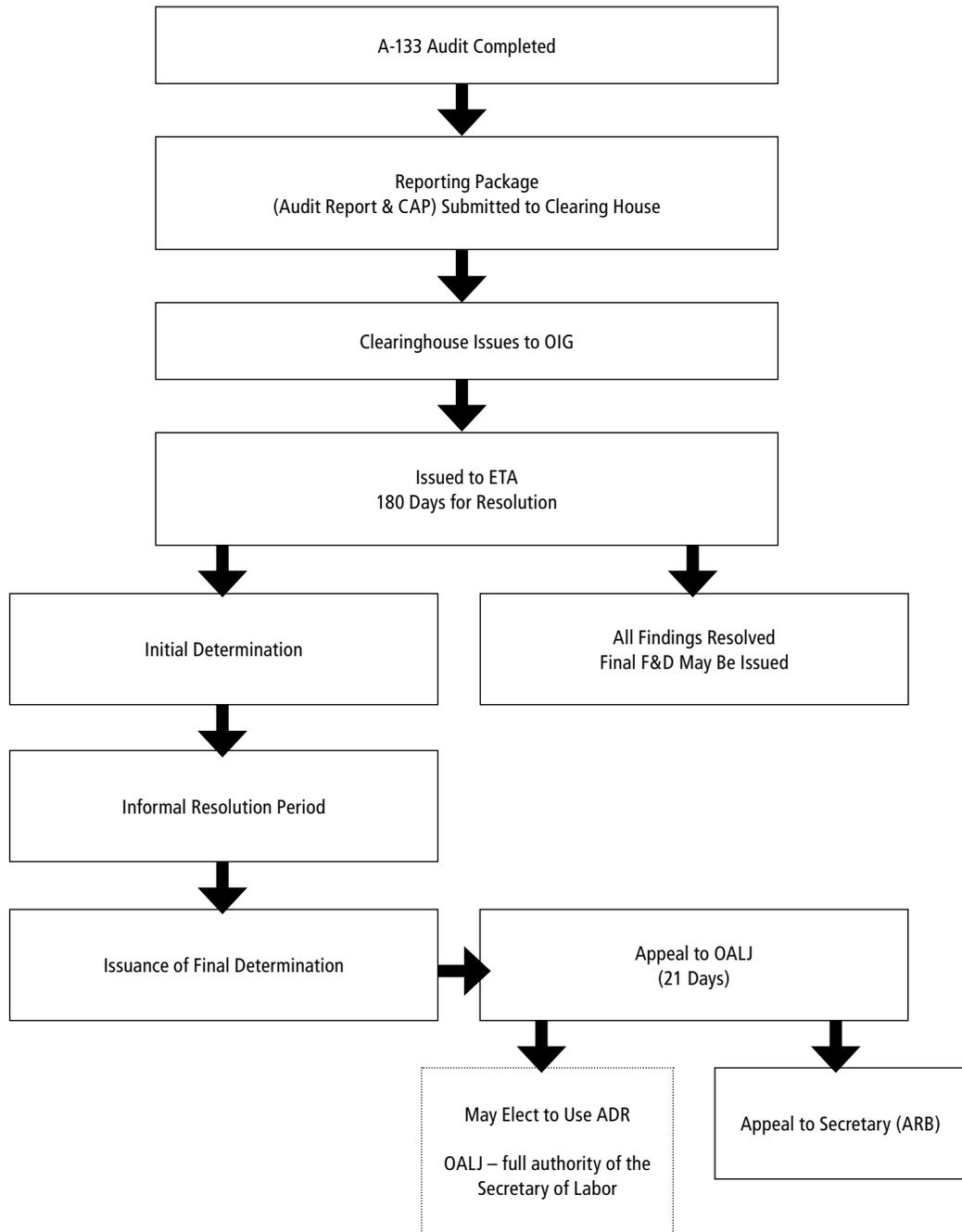
(Financial and Compliance) Under OMB Circular A-133

### AUDIT REVIEW CHECKLIST

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1. Does the audit report include the following:
  - a. Auditee's financial statements?
  - b. Report (opinion) on the financial statements?
  - c. Schedule of Federal awards by Catalog of Federal Domestic Assistance (CFDA) number?
  - d. Report (opinion) on the schedule of Federal awards?
  - e. Report on internal controls related to the financial statements and major programs?
  - f. Report on compliance with laws, regulations, etc.?
  - g. Schedule of findings and questioned costs? (if none, schedule should say none)?
  - h. Schedule of prior audit findings?
  - i. Auditee's corrective action plan?
2. Do you understand and agree with the type of financial opinion given (qualified, unqualified, adverse, disclaimer)?
3. If X any scope limitations are cited in the opinion, are they correct?
4. Are the opinions dated as of the last day of fieldwork?
5. Do the opinions refer to the government audit standards (Yellow Book) and OMB Circular A-133?
6. If the audit refers to "another comprehensive basis of accounting," is this correct?
7. Are all agency funds (grants, corporate cash, program income, etc.) included in the financial statements?
8. If grants overlap the fiscal year, is there information by grant or supplemental schedule (if required by the audit contract)?
9. If significant deficits exist in any fund balance, are they clearly explained?
10. Has the auditor provided the agency with copies of any recommended adjustments to the books?
11. Do the financial statements agree with the agency's books, after the posting of the recommended adjustments?
12. If supplementary schedules are required, is there an opinion covering the supplementary information?
13. Are the accounting policies clearly explained in the notes to the financial statements?
14. Could notes explaining any financial items raise questions to an outside reader?
15. Does the audit discuss the status of prior year audit finding(s)?
16. Do the findings clearly indicate the criteria for each finding?
17. Are the agency's comments included with each finding?
18. Are the findings clearly written in such a manner that they can be responded to?
19. Does the audit clearly indicate how any questioned costs have been calculated?
20. Was an exit conference conducted?
21. Were all items in the audit discussed at the exit conference?
22. Was the audit completed and submitted on time?
23. Do the billings for the audit agree with the amount in the audit contract?
24. If the audit fee increased, was it approved before work was performed?
25. Was the audit staff competent and knowledgeable about government audit standards, grant programs, cost principles, and administrative requirements?

## Attachment 2 - ETA Audit Resolution Flow Chart



\*F&D = Findings & Determination  
 \*\*OALJ = Office of the Administrative Law Judge  
 \*\*\*ADR = Alternative Dispute Resolution

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**Attachment 3 - Sample Audit Transmittal Letter**

(for Comment Purposes)

Date:

Address:

Re: (Auditee) Audit Report Number

Dated:

Period:

Dear (Name of Subgrantee Administrator):

(Name of Grantee) has examined the results of the Single Audit of the (Auditee), issued by (Name of Firm), dated \_\_\_\_\_, for the year ended June 30, 20XX.

The audit report on pages \_\_\_\_\_ cites questioned costs of \$\_\_\_\_\_ and on pages \_\_\_\_\_ cites \_\_\_\_\_ administrative findings. At this time, (Name of Grantee) is extending to (Name of Subgrantee) 30 days from receipt of this letter to submit comments and/or documentation relative to the above questioned costs and administrative findings.

At the conclusion of the 30-day response period, this office will issue an Initial Determination.

Should you have any questions regarding this report, please contact \_\_\_\_\_ at \_\_\_\_\_.

Sincerely,

Grant Administrator

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## Attachment 4 - Sample Initial Determination Transmittal Letter

(May Be Used for Both Initial and Final Determinations)

Date:

Address:

Dear Mr./Ms. \_\_\_\_\_:

This is in reference to the audit of the Employment and Training Administration program operated by the (Auditee). The audit report contains (select):

Questioned costs and administrative findings

Administrative findings but no questioned costs

Questioned costs in the amount of \$\_\_\_\_\_

Enclosed is my Initial Determination on the audit findings summarized as follows:

Audit Report Number:

Audit Period:

Amount Questioned:

Amount Allowed:

Amount Disallowed:

Number of Administrative Findings:

Number of Uncorrected Administrative Findings:

The enclosed Initial Determination explains the reasons for the determinations to (select as appropriate):

Allow or disallow costs

Require administrative corrective action

Allow or disallow costs and require administrative corrective actions.

In accordance with (Audit Policy) this notification provides the (Auditee) with the opportunity to resolve the audit findings informally with the (Grantee Name) within \_\_\_\_\_ days from the date of this letter and Initial Determination. A Final Determination will be issued upon expiration of the \_\_\_\_\_ day informal resolution period.

If you wish to begin informal resolution discussions, please contact \_\_\_\_\_ of my staff at (Telephone Number) immediately upon receipt of this letter.

Sincerely,

Grant Administrator

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**Attachment 5 - Sample Findings and Determination Format**

Date:

Subject: Initial (Final) Determination

References: (Auditee)

Audit Number:

Audit Period:

Amount Questioned:

Amount Allowed:

Amount Disallowed:

Amount Subject to Debt Collection (for Final Determination only):

Number of Administrative Findings:

Number of Uncorrected Administrative Findings:

Introduction: This is the Initial Determination on the resolution of (select):

    Questioned costs and administrative findings

    Administrative findings

Questioned costs.

Recommendations pertaining to the Employment and Training Administration (ETA) programs are contained in the above referenced audit. These programs are administered by the (Auditee). The audit was performed by (Audit Firm) pursuant to the provisions of OMB Circular A-133 and issued on (Date).

The audit report (select):

    Questioned \$ in costs

    Identified \_\_\_\_\_ administrative/procedural weakness(es)

The (Auditee's) response to the audit report was taken into consideration in the preparation of this Initial Determination.

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## Attachment 5 - Sample Findings and Determination Format - Continued

### Finding Number

*(Format/Content) The order of findings should correspond to the order in the audit report with administrative findings listed first and questioned costs findings listed second.*

### Findings contain the following:

- Amount and nature of the questioned cost or nature of the administrative finding
- Citation of appropriate regulations, circular, issuances, or agreements that were violated
- Appropriate explanatory information, including any subrecipient's attempt to support cost or administrative deficiencies
- Explanation of whether costs were adequately supported or if the administrative deficiency was corrected
- Determination

### (Format/Content) The determination should include:

- Basis upon which the auditee's response was accepted or rejected
- Precise statement as to whether questioned costs are allowed or disallowed (if appropriate)

Precise statement as to whether or not the finding (administrative) is corrected

**A Quick Guide to Financial Management  
Requirements for Earmark Grants**  
Revised April 2008

**Prepared for:**  
U.S. Department of Labor  
Employment and Training Administration

