REPUBLIC OF PALAU
WORKFORCE INVESTMENT POLICY NO. 019-7-2000

EFFECTIVE DATE: July 01, 2000

TO : Members of Palau State Workforce Investment Board

FROM : Ms. Josephine Ulengchong
WIA Office Executive Director

SUBJECT : **STANDARDS FOR FINANCIAL MANAGEMENT SYSTEM**

The financial management system and the participant data system of the Palau WIA program shall provide federally required records and reports that are uniform in definition, accessible to authorized Federal and State staff, and verifiable for monitoring, reporting, audit, program management, and evaluation purposes. (20 CFR part 667.200 and 29 CFR Parts 95 and 97).

The administrative rules applicable to the use and protection of Employment and Training Administration (ETA) grant funds are found in Department of Labor (DOL) regulations for the management of grant funds at 29 CFR Part 97 and 29 CFR Part 95. The rules applicable to State, local, and Indian tribal governments are contained in 29 CFR Part 97, and 29 CFR Part 95 contains the rules applicable to institutions of higher education and other non-profit organizations. The DOL has also extended the rules in Part 95 to commercial organizations that function as either recipients or subrecipients of ETA grant funds.

The requirements for the administrative and financial management systems applicable to governmental entities are specified in 29 CFR Part 97. Under the section titled *Standards for Financial Management Systems,* 29 CFR 97.20(a) specifies the requirements for administrative and financial management systems for States, and 97.20(b) contains the requirements for local governments, Federally recognized Indian tribes, and subgrantees.

The requirements for administrative and financial managements systems applicable to institutions of higher education, hospitals, other nonprofit organizations, and commercial or for-profit organizations that function as subrecipients or recipients of ETA grant funds are specified in 29 CFR 95.21.

The requirements for both governmental and non-governmental organizations are substantially the same, with the exception of States. For States, adherence to the requirements of 29 CFR 97.20(a) will mean that each State must expend and account for grants in accordance with the State laws and procedures of expending and accounting for its own funds as long as State procedures do not conflict with the WIA or other Acts, grant requirements, or DOL regulations. Where State procedures are in conflict, such conflict must be resolved in favor of the Federal requirements.

Both CFR Part 97.20(b) and 95.21(b) establish a set of standards that must be included in the financial management systems of grantee and subgrantees. The seven standards are:

Financial Reporting. Accurate, current, and complete disclosure of the financial results of ETA grant activities must be made in accordance with ETA grant reporting requirements. This means that each allowable cost reported to the Federal funding sources must be traceable to accounting records. In addition, all allowable costs and activities must be reported and the reports must be submitted in the format specified by the DOL-ETA. (20 CFR §667.300).

Accounting Records. All grantees must keep records that adequately identify ETA grant funds. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be maintained in accordance with Generally Accepted Accounting Principles (GAAP). 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, the grantee or subgrantee must usually maintain a set of linking records, typically accrual spreadsheets, so that the reported costs are traceable during monitoring or auditing to the official accounting records or books of account.

Internal Controls. 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 such analysis are used to preclude overspending and/or to modify contracts and grant agreements. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.

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 an ETA-funded grant, and no grant may pay for more than its fair share of the costs (allocability). This means that the grantee must determine what costs incurred by the organization are allowable, following guidelines specified under Cost Principles and Allowable Costs (OMB Circulars A-87 and A-122).

Source Documentation. Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, contract and subgrant award documents, tax records, etc. Source documentation is the proof that costs reported to the granting agency are, in fact, allowable and allocable to the grant. This source documentation must be available for review by awarding agency representatives and auditors, and directly relate to the costs claimed on financial records.

Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. When advances are made by PMS/electronic transfer of funds methods, the grantee must forecast cash needs to ensure that cash is received as close as possible to the time of actual disbursement. Grantee must also monitor the cash received by their subgrantees to minimize cash on hand. In addition, they must ensure that the subgrantees’ cash management procedures conform substantially to the same standards of timing and amount that apply to the awarding entity.

In addition, 29 CFR 95.21(a) requires that all non-governmental recipients relate the financial results of the program to program performance information and develop unit cost data “whenever practicable.” In practical terms, this requirement specifies that grantee 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.”

The Grant Recipient shall ensure that its financial system as well as those of subrecipients provides fiscal control and accounting procedures that are:

(1) In accordance with generally accepted accounting principles applicable to the State including:

- (i) information pertaining to subgrant and contract awards, obligations, unobligated balances, assets, liabilities, expenditures, and income;
- (ii) effective internal controls to safeguard assets and assure their proper use;
- (iii) a comparison of actual expenditures with budgeted amounts for each subgrant and contract;
- (iv) source documentation to support accounting records; and
- (v) proper charging of costs and cost allocation; and

(2) Sufficient to:

- (i) permit preparation of required reports;
- (ii) permit the tracing of funds to a level of expenditure adequate to establish that funds have not been used in violation of the applicable restrictions on the use of such funds;
- (iii) as required by section 165 (g) of The Act, permit the tracing of program income, potential stand-in costs and other funds that are allowable except for funding limitations, as defined in 20 CFR part 627.480 (f), audits, and
- (iv) demonstrate compliance with the matching requirement of section 123 (b) (2), if applicable.