

Chapter 3

Administrative and Financial Systems

INTRODUCTION

The administrative rules applicable to the use and protection of WtW funds are found in DOL regulations at 29 CFR Part 97 and 29 CFR Part 95. These regulations contain the codification of the uniform administrative requirements of OMB Circulars A-102 and A-110. 29 CFR Part 97 contains the rules applicable to State, local, and Indian tribal governments. 29 CFR Part 95 contains the rules applicable to institutions of higher education and other nonprofit organizations. DOL has also extended the rules in Part 95 to commercial organizations that function as either recipients or subrecipients of WtW funds. In addition to specific rules on property management, payments, reporting, and a number of other grant management topics, both parts lay the framework for grant management through a description of what constitutes a proper system that accounts for and manages grant funds.

This chapter contains the following sections:

- Governmental Grantees
- Nongovernmental Grantees.

GOVERNMENTAL GRANTEES

29 CFR 97.20(a), Standards for Financial Management Systems, specifies the requirements for administrative and financial management systems for States:

“(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Implementation of and adherence to the above requirements will mean that each State must expend and account for grants in accordance with the State laws and procedures for expending and accounting for its own funds as long as State procedures do not conflict with the WtW Act, grant requirements, or DOL regulations.

The requirements that apply to local governments, federally-recognized Indian tribes, and subgrantees are found in 29 CFR 97.20(b). The standards that must be met by these entities are listed and discussed below.

- # **Financial Reporting.** Accurate, current, and complete disclosure of the financial results of WtW activities must be made in accordance with WtW reporting requirements.
- # **Accounting Records.** All grantees must keep records that adequately identify WtW funds. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- # **Internal Control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized WtW activities.
- # **Budget Control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. 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. This information should be used in developing plans and monitoring.
- # **Allowable Costs.** Applicable OMB cost principles, WtW regulations, and the terms of the grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs. A further discussion of allowable costs is found in Chapter 5, *Cost Principles and Allowable Costs*.
- # **Source Documentation.** Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. This source documentation must be available for review by awarding agency representatives and directly relate to the costs claimed on financial reports.
- # **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 the advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports from subentities in sufficient time to enable them to prepare complete and accurate WtW cash transactions reports. 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 entities must monitor cash received by their subordinates to ensure that procedures conform substantially to the same standards of timing and amount as apply to the awarding entity. A further discussion of the cash management requirements is found in Chapter 10, *Cash Management*.

An awarding entity may review the adequacy of the administrative and financial management system of any grantee/subgrantee/competitive grantee/cost contractor as part of a pre-award review or at any time subsequent to award. Processes and procedures should be documented through the development of manuals or policy directives that clearly state exactly how the grantee/subgrantee/cost contractor will adhere to these requirements. The adequacy of the systems may impact on future funding or the imposition of corrective action plans. Many of the subsequent chapters of this TAG are designed to provide WtW operators with practical guidance on methods for developing adequate systems and complying with Federal financial management requirements.

NONGOVERNMENTAL GRANTEES

Section 29 CFR Part 95.20 specifies the requirements for administrative and financial management systems applicable to institutions of higher education, hospitals, and other nonprofit organizations. DOL has also applied these requirements to commercial or for-profit organizations that function as subrecipients or recipients of WtW funds. Part 95.20(a) requires recipients to relate the financial results of the program to program performance information and to develop unit cost data “whenever practicable.” The seven standards of the financial management system (29 CFR 95.20(b)) are substantially the same as those applied to local and Indian tribal governments (29 CFR 97.20(b)) and are listed below:

1. Accurate and complete disclosure of the financial results in accordance with the reporting requirements. Grantees/subgrantees are not required to establish accrual accounting systems, but they may determine accruals for reporting purposes through an analysis of documentation.
2. Records that provide information on grant awards, obligations, unobligated balances, assets, expenditures, income, and interest earned.
3. Adequate controls and safeguards for all funds, property, and other grant assets. Safeguards must insure assets are used only for grant purposes.
4. Comparisons of expenditures to budgeted amounts for each award received. Financial information should be related to performance and unit cost information.
5. Written cash management procedures to minimize the time between receipt of Federal funds (drawdowns) and issuance or redemption of checks and warrants. Procedures should be consistent with the requirements of the Cash Management Improvement Act (CMIA) or the default procedures specified at 31 CFR Part 205.

6. Written procedures for determining “reasonableness, allocability, and allowability” of costs in accordance with the specifications of OMB Circular A-122, A-21, or 48 CFR Part 31, as appropriate.
7. Maintenance of accounting records that are supported by source documentation.