Chapter 10

Cash Management

INTRODUCTION

This chapter discusses State-level cash management, describes the cash management requirements for non-State grantees and subgrantees, and provides guidance and suggestions on efficient and effective cash management below the State level.

This chapter contains the following sections:

- Governmental grantee cash management
- State-level cash management
- Non-governmental grantee cash management
- Cash management at the subrecipient level
- Additional cash management considerations
- Attachment 1 - Funding techniques under the Cash Management Improvement Act.

What the Regulations Require

The regulations governing payments are found at 29 CFR 97.21 and 95.22. The regulations are substantially the same and are summarized as follows:

The time between receipt and disbursement of funds should be minimal.

Grantees and subgrantees are to be paid in advance, provided they comply with requirements for procedures.

Reimbursement is the preferred method of payment if the above standard is not met.

To the extent possible, funds should be deposited in minority- or women-owned banks.

Funds are to be held in an insured, interest-bearing account (95.22).

Interest earned on Federal funds is remitted according to Circular requirements.

GOVERNMENTAL GRANTEE CASH MANAGEMENT

Governmental agencies are required to follow 29 CFR 97.21 cash management requirements. Section 97.21(c) provides that grantees and subgrantees are to be paid on the advance method, provided they have a system in place to minimize the time elapsed between receipt of Federal funds and actual disbursement. There are a number of mechanisms such as zero balance accounting or estimated/average clearances (discussed in Attachment 1) that may be used by grantees to ensure compliance with this standard, which is stated at 97.21(b). If the grantee is unwilling or unable to comply, then the reimbursement method must be used.

STATE-LEVEL CASH MANAGEMENT

States are subject to cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21. The 31 CFR Part 205 regulations implement the Cash Management Improvement Act (CMIA) of 1990. The purpose of the CMIA is to make the process of transferring funds between States and the Federal government more equitable and efficient.

Subpart A of Part 205 establishes requirements for cash transfers between the States and the Federal government for certain Federal programs listed in the regulation as well as other programs determined by each State to meet its threshold of materiality. Subpart A establishes the methods to be used and the requirements to be followed in programs covered by are contained in a Treasury-State agreement negotiated between the Treasury Department and each State. Coverage of the WtW program under Subpart A provisions is wholly dependent upon the individual State thresholds.

Subpart B of Part 205 establishes requirements for Federal financial assistance programs involving the States that are not subject to Subpart A requirements. State grantees should contact their respective State treasurers to determine the extent of any coverage of the WtW grant under CMIA. The State treasurer will then determine the appropriate funding mechanism to be used to comply with the CMIA requirements.

NON-GOVERNMENTAL GRANTEE CASH MANAGEMENT

Institutions of higher education (not a part of State government), hospitals and other nonprofit organizations, and commercial entities are bound by the cash management requirements of 29 CFR 95.22. Specifically, 29 CFR 95.22(b) contains the requirements for non-governmental grantees. It states that, in order to be paid on an advance basis, recipients and subrecipients must maintain a financial management system in accordance with the requirements of 29 CFR 95.21 and have written procedures to ensure that the time elapsing between receipt of funds and disbursement is minimized. If the grantee is either unwilling or unable to comply with the required cash management standards, then the reimbursement method of payment must be used. [29 CFR 95.22(e)] Part 95 further requires that funds be maintained in interest-bearing accounts and encourages the use of minority- and women-owned banks. Grantees may also use the method of working capital advances to provide funding. Use of this method is further discussed later in this chapter.

In addition, 29 CFR 95.22 states that payments may not be withheld from grantees unless the grantee has either failed to comply with conditions of the grant award or has a current unpaid debt with the Federal government.

The conditions stated at Part 95.22 apply equally to recipients and subrecipients as appropriate.

CASH MANAGEMENT AT THE SUBRECIPIENT LEVEL

There are no Treasury Department cash management rules below the State level or for programs not covered by the Treasury-State agreement. As stated previously, the cash management requirements at 29 CFR Parts 97.21 and 95.22 apply at this level. Grantees are responsible for developing and maintaining systems for the payment to subgrantees. Following are cash management issues that should be addressed in developing a subrecipient payment system.

Cash on Hand Should Be Used Before Asking for More

Any cash available for disbursement for WtW program purposes, whether from drawdowns, program income, rebates, etc., is considered to be WtW cash on hand and should be used by the recipients or subrecipients before requesting additional funds. Even if the program income is not spent until a later date, the cash associated with that program income must be disbursed before additional cash is requested. The cash proceeds from earned program income should be used immediately for whatever WtW disbursement needs exist. Recipients and subrecipients should not leave cash resulting from earned program income sitting idle in a bank account. For more information, see Chapter 12, *Program Income*.

Rules Intended to Minimize Subrecipient Cash on Hand

The DOL Employment and Training Administration requires that subrecipients obtain funds from the primary recipient as needed for disbursement. Transfers of cash from a primary recipient to a subrecipient should conform to the same standards of timing and amount as set forth for transfers from Federal agencies to primary recipients, as is required by both 29 CFR 97.21 and 95.22. To receive cash advances, subrecipients must demonstrate that they will maintain procedures that support Federal cash management requirements. These procedures are necessary to effectively minimize cash on hand at the subrecipient level, and to allow for the expeditious transfer of cash. Subrecipients are encouraged to use zero balance accounting, estimated clearance, or average clearance cash management techniques as described in Attachment 1 to this chapter. Where these techniques cannot be used, the subrecipient should justify any alternative arrangement, such as pre-issuance funding. Recipients should also provide advance payments to subrecipients via electronic funds transfer (EFT).

Limit Cash Advances

Subrecipients should limit cash advances to the minimum amounts needed and should time their advances to meet actual, immediate cash needs. Because cash distribution policies and practices vary from organization to organization, it is not possible to specify one time period against which all subrecipient cash balances can be measured to determine if the requirement of "immediate cash needs" has been met. Cash should not be requisitioned for delivery before the last day it can be received for timely payout through a given organization's cash disbursement process.

Two examples help to illustrate the point. In them, a local area grantee is part of an organization that requires cash in its checking account before writing or releasing checks. The reader must adjust the time frames in the examples for organizations with procedures that allow for receiving cash after checks have been written and released.

> **Example.** The State requires the local area grantee to order cash for delivery every Friday. The local area grantee disburses its employee payroll every other Thursday. The local area grantee should not order cash to meet its payroll until the Friday immediately before the Thursday on which the payroll is disbursed.

> **Example.** The State allows the local area grantee to requisition cash for delivery on all working days. A local area grantee disbursing a payroll on Tuesday should order cash for delivery on Monday, not on the preceding Friday.

Monitoring Subrecipient Cash Management Practices

The following factors have an impact on the ability of subrecipients to effectively manage cash and should be incorporated into monitoring the payment systems of subrecipients:

- Grantee policy and procedures that the subrecipients must use to obtain cash
- Any legislative or procedural requirements with which the subrecipient must comply as a part of a larger organization
- The services available to the subrecipient from the banking industry in its locality
- The cost of such services in comparison to potential interest savings if such services are used.

A subrecipient operating in a restrictive environment that does not permit utilization of the best cash balance minimization techniques could not be criticized, whereas a subrecipient who elects not to practice good techniques should be.

The second area subrecipients should focus on is performance. Every organization should develop the best possible cash management procedures, and each should be evaluated in terms of how it actually performs within the given environment. In evaluating from the grantee level, the following questions must be asked:

- # Is the subrecipient keeping its average daily balance of cash on hand to the minimum that can be maintained using the recipient's cash management procedures?
- # Is it minimizing cash balances as much as possible using the procedures that it has selected to use?

Timing Disbursements To Improve Cash Management

Grantee disbursement cycles and payment policies for subrecipients can be weekly, biweekly, or on some other cycle. To improve cash management, subrecipients should time their projected clearance patterns to coincide with the receipt of cash from the grantee. The following is one example of cash management procedures.

Day	Action	Clearance Pattern %
1	Subrecipient issues checks	-0-
2		-0-
3	Recipient moves cash by EFT to subrecipient account	60
4		20
5		15
6		5

Cash Advances Based on Disbursement Cycles

This section discusses how to manage cash effectively based on grantee and subgrantee disbursement cycles. Projections and timing are important for good cash management in an environment absent EFT–where cash is requested by the subgrantee, processed by the grantee treasurer, and mailed to each payee. As a general rule, subrecipients should use clearance date rather than date of disbursement to determine cash needs.

The following scenarios suggest "best practices" where the objective is to adjust, where possible, disbursement cycles to coincide with the receipt and payout of cash. For these scenarios, the following assumptions are made about disbursement cycles:

- The grantee disburses cash each Friday.
- The subgrantee payroll is biweekly. All other nonpersonnel services costs, including advances to contractors, coincide with payroll payment activity.
- It takes two weeks from the time a cash request is submitted for the subgrantee to receive a check.

<u>Scenario 1 (Fixed Disbursement Cycle).</u> Specific dates of the week or month are preselected for check disbursement by the grantee and subgrantee. In such events, the subgrantee should not request cash in excess of the amount needed for payout purposes for a specific time period, such as weekly. This scenario affords administering agencies minimum flexibility with timing.

Scenario 2 (Subgrantee Flexible Disbursement Cycle). The grantee processes one weekly cash request from each subgrantee. The time lapse between a cash request submitted by the subgrantee and deposit in the subgrantee's account is 12 days. The subgrantee can control the disbursement cycle by scheduling payables or check release dates.

In this scenario, the subgrantee disbursement cycle can be adjusted for the 12-day turnaround time for receiving cash from the grantee. The subgrantee is controlling payables and timing of payments to coincide with the receipt of cash from the grantee. The receipt of cash and payout at the bank should be timed to occur simultaneously.

Scenario 3 (Subgrantee and Grantee Flexible Disbursement Cycles). The subgrantee is on a five-day ongoing disbursement cycle. There are no restrictions on the number of cash requests a subgrantee can submit to the grantee. The grantee processes cash requests on an ongoing 10-working-day disbursement cycle.

This scenario allows the subgrantee to plan daily cash disbursements to coincide with daily cash receipts. The subgrantee also can schedule payables for specific dates to improve cash management efficiency.

Cash Forecasting Considerations

Net Payroll/Payroll Taxes/Fringe Benefits. Net payroll, not gross salaries and wages, should be used for cash forecasting purposes. Normally, payroll deductions and tax deposits are disbursed at different times from the payroll dates. Fringe benefits such as retirement, medical, FICA, and Worker's Compensation are also normally paid in a period different from the corresponding payroll dates. In many agencies, fringe benefit costs are paid in advance by the employing agency and subsequently allocated back to the various departments on a quarterly basis. In such instances, cash should not be requested until the actual disbursement dates for items such as payroll tax and fringe benefit costs.

Accrued Expenses. Accrued expenses often will exceed cash disbursements. Cash is not needed to accommodate an accrual until the check written to pay an invoice is paid out by the bank.

Obligations. Incurring an obligation does not require cash. Cash is needed only when checks written against those obligations are presented at the bank for clearance, or when payment warrants are issued. The method would depend on local requirements.

Reimbursement Method

As stated in 29 CFR 97.21 and 95.22, reimbursement is the method of payment to be used when the subrecipient is unwilling or unable to comply with the specified cash management practices.

Under this method, payment is made after the costs have been incurred and a request for repayment has been submitted to the awarding agency.

Working Capital Advance Method

Working capital advance is the method for advancing funds to the subrecipient to cover its estimated disbursement needs for a given initial period, and then providing reimbursement payments for subsequent periods. This method would not be used for subrecipients that qualify for advances. However, this method can be used in place of the reimbursement method if the recipient determines that the subrecipient lacks sufficient working capital.

The *amount* of the initial advance should be geared to the subrecipient disbursement cycle. After the initial period, the payments are approximately equal to the subrecipient's unreimbursed program payments. After the initial advance, the awarding agency reimburses the subrecipient for its actual cash disbursements.

Generally, working capital advances can be made only when the advance method of payment is not available and when based on regulations and guidelines affecting the amount.

The following example shows how working capital advance payments are processed and presents other considerations.

> **Example.** The grantee's policy is to limit working capital advances to the first week of disbursement needs. A subrecipient submits a schedule of disbursements to be paid out during the first week of operation. The total amount of the contract is $136,000. The maximum limit on a working capital advance in this example is $22,700 (cash needs for one week). An example of a disbursement schedule to determine the amount of working capital advance is as follows:

Staff salaries	$12,500
Insurance	1,000
Rent	800
Equipment Rental	4,800
Office Supplies	400
Training Materials	3,200
Working Advance	$22,700

After a working capital advance is issued, the subrecipient would be reimbursed for its actual cash disbursements. This advance is a one-time process designed to facilitate the start-up of projects that need and qualify for an advance.

This method cannot be used if the reason for using it is the unwillingness or inability of the awarding agency to provide timely advances to the subrecipient to meet its actual cash disbursements. If an awarding agency is reluctant or unwilling to implement efficient and speedy cash management procedures, the agency is disqualified from making working capital advances.

ADDITIONAL CASH MANAGEMENT CONSIDERATIONS

Interest

In accordance with 29 CFR 97.21(I), governmental grantees and subgrantees other than States must remit interest earned on WtW funds to DOL on a quarterly basis. The grantee/subgrantee is entitled to retain amounts less than $100 per year for administrative expenses. Interest earned by States is governed by the Treasury-State agreement and remitted as part of overall State cash management practices.

Non-State grantees and subgrantees are governed by 29 CFR 95.22(l), which requires an annual remittance of interest to the Federal government. Grantees/subgrantees are authorized to retain up to $250 per year for administrative expenses.

Grantees and subgrantees are liable for interest earned on funds drawn down until the funds are paid out by the banks, not when a check or warrant is issued or disbursed by the grantee.

Local Policy

Some local governments require that cash be on deposit in the account before a check can be issued. In such instances, local governments should be encouraged to regard funding documents (e.g., recipient-issued letter of credit/subgrant award) as a guaranteed equivalent of cash on hand.

Cash Forecasting

Cash forecasting identifies specific needs within a specific time frame and should be required. Cash forecasting can be daily, weekly, on some other defined disbursement cycle, or as needed. The point is not to prescribe a specific cash forecast period, but to gear the cycle to when cash is actually paid out at the bank. A valid clearance pattern is an acceptable method of cash forecasting.

Most local area grantees and subrecipients operate on a cash advance basis. To the maximum extent feasible, subrecipients should be provided with advance payments via EFT. Consistent with the policy of maintaining minimum cash balances, the recipient is required to develop procedures for subrecipients to submit requests for cash resources. Such procedures should not allow cash to be paid out in amounts that exceed immediate needs.

Funding Techniques

Grantees and subgrantees may select among several funding techniques, and it is possible to have a different funding technique for each program. These techniques are described in 31 CFR Part 205. While the techniques are discussed as they relate to a State grant under the CMIA, they may also be used by grantees and subgrantees not subject to the CMIA. The techniques discussed in this Attachment are:

- Zero Balance Accounting
- Estimated Clearance
- Average Clearance
- Pre-Issuance Funding.

Zero Balance Accounting

How It Works. With this technique, a recipient requests funds and the agency deposits funds in a State account the same day program funds are paid out by the State. Under this arrangement, the account balance is always zero.

How It Works for Subrecipients. The same concept can be applied to subrecipients in a non-CMIA setting. A subrecipient requests funds equal to the amount paid out, and the State agency deposits the same amount in the subrecipient account, on the same day program payments are made.

Using zero-based bank accounts, States can employ some variations to this technique to improve cash management at the subrecipient level. For instance, separate zero-based accounts could be established for all or a selected number of subrecipients at the same bank used by the recipient. As checks are presented for payment, the bank simply transfers cash from the State account to the zero-based subrecipient account in an amount equal to the total of checks presented each day.

Many organizations use a separate bank account for payroll. A more efficient arrangement is for the subrecipient to arrange for a zero-based payroll account with the bank. The bank simply transfers from the agency working account to the payroll account an amount equal to the amount of checks presented for payment. Such an arrangement eliminates the need for cash to be deposited in a payroll account during the time period needed to clear payroll checks.

Estimated Clearance

Neither the Federal government nor a State will incur an interest liability when this funding technique is properly applied.

How It Works. Clearance patterns must be established that are auditable and based on sound principles, but need not track every transaction. Statistical sampling models can be used.

Clearance patterns establish the cash needs and payout relationship. The following example is based on $1.5 million worth of checks mailed to subrecipients/contractors by the State.

Day	Dollars Paid Out by State (%)	Cash Requested From Federal Government ($)
0	Checks Mailed	-0-
1	-0-	-0-
2	-0-	-0-
3	-0-	450,000
4	30	600,000
5	40	300,000
6	20	150,000
7	10	-0-

This technique requires processing several drawdowns on consecutive days. Timing and error-free drawdowns are fundamental requirements of the estimated clearance technique.

How It Works for Subrecipients. The same concept can be applied at the subrecipient level. A subrecipient requests funds one business day prior to need and the State deposits funds the next business day in the subrecipient bank account, based on the established clearance pattern. Timing and error-free drawdown processing are important to ensure cash availability.

Average Clearance

Under the CMIA, neither the Federal government nor the State will incur an interest liability when this funding technique is properly applied.

How It Works. Average clearance is established based on the dollar weighted average number of days required for funds to be paid out (bank clearance) by the State after a disbursement. How this works is clarified in the following example. The factor is obtained by multiplying days by percent of dollars paid out. In this example, the State mails $1.5 million in checks to subrecipients.

Days		% Dollars Paid Out	Factor
0 (Checks Issued)		-0-	
1	X	-0-	
2	X	.30	.60
3	X	.40	1.20
4	X	.15	.60
5	X	.10	.50
6	X	.05	.30
		Total Average Days	3.20

Based on the above average clearance of three days, the State requests $1.5 million on day two and receives that amount on day three, which is the dollar-weighted average number of days required for checks to be presented at the bank. As with estimated clearance, average clearance can be employed at the subrecipient level.

Pre-Issuance Funding

When this funding technique is applied, a State will incur an interest liability to the Federal government from the day Federal funds are credited to a State account to the day the State pays out the funds for program purposes. The following example shows how interest will accrue. Assume $1.5 million in Federal funds deposited in the recipient's account on day 0.

Day	%Dollars Paid Out by Recipient
0 (Federal $ Deposited)	0
1	0
2 (Recipient issues checks)	0
3	0
4	60
5	20
6	10
7	5
8	5

How It Works. Under the above pre-issuance funding arrangement, the State will owe the Federal government four days of interest on 60% of the funds, or $900,000, since that amount will be paid out for checks presented four days after Federal funds are deposited in the State account. The State will owe five days of interest on 20% of the funds, or $300,000; six days of interest on 10% of the funds; and so on.

A State will incur an interest liability to the Federal government if Federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for program purposes.