EMPLOYMENT AND TRAINING ADMINISTRATION ADVISORY SYSTEM U.S. DEPARTMENT OF LABOR Washington, D.C. 20210	CLASSIFICATION Financial Reporting
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ADVISORY: **TRAINING AND EMPLOYMENT GUIDANCE LETTER NO.** 28-10

TO: STATE WORKFORCE AGENCIES
STATE WORKFORCE ADMINISTRATORS
STATE WORKFORCE LIAISONS
STATE AND LOCAL WORKFORCE INVESTMENT BOARDS
ALL DIRECT ETA GRANT RECIPIENTS
STATE UNEMPLOYMENT INSURANCE DIRECTORS

FROM: JANE OATES
Assistant Secretary

SUBJECT: Federal Financial Management and Reporting Definitions

1. Purpose. To provide Employment and Training Administration (ETA) grantees definitions of disbursements, expenditures, and obligations as they relate to the Federal reporting requirements specified in ETA grant agreements, the Uniform Administrative Requirements, and Government Accounting Standards to ensure consistent application of definitions in preparation of ETA's financial reports.

2. References.

- 29 CFR 97.3
- 29 CFR 95.2
- 2008 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (2008 Codification), Section 1700 and 1700.128
- 31 USC Sections 205 and 6503, the Cash Management Improvement Act (CMIA)
- U.S. General Accountability Office, Principles of Federal Appropriations Law ("Red Book"), Volume 2, 2006. (http://www.gao.gov/legal/redbook.html)
- Comptroller General Decisions: [B-148283, 1962]; [B-136383, June 27, 1958], and [B-116795, June 18, 1954]. (http://www.gao.gov/legal/decisions.html)

3. Background. Financial reporting by grantees enables ETA to report to its stakeholders key information about use of grant funds. Accurate data are imperative because these reports impact ETA's financial credibility. Accurate reporting of the expenditure and obligation of funds in the current year provides vital information for future ETA funding levels and crucial data for both ETA and grantees necessary for appropriate management of grant funds. While common errors include late or inaccurate reports, it has also come to our attention that ETA grantees are

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inconsistently interpreting and applying definitions of key financial terms in preparing their quarterly financial reports. The lack of consistency in reporting of disbursements, expenditures, and obligations also derives from the different accounting systems used by the various grantee entities that do not also track accruals through use of worksheets.

As a result, a number of grantees are providing ETA with an inaccurate picture in their quarterly financial reports. As a means to create consistent reporting across grantees, ETA has developed this Training and Employment Guidance Letter (TEGL) to discuss the impact of using appropriate terms on financial or programmatic management of grants; to clarify the definitions of common financial management terms; and to provide examples of appropriate use of the definitions.

a. **Disbursements.** Cash disbursements from the Federal level to grantees are tracked in real time (as opposed to expenditures which are reported only once per quarter). As a result, these data are often used by ETA as a proxy for the status of the usage of funds for grant programs. The financial reports submitted by the grantees provide validation of the accuracy of this data and additional information not available at the Federal level, such as disbursements from the states to the local areas. Discrepancies in the way disbursements are reported by grantees diminish the credibility of ETA's analyses. One inconsistency ETA sees in state grantees stems from the differing terms of their individual Treasury-Governor Agreements under the Cash Management Improvement Act (CMIA). Based on the terms of their agreements, some states may delay the drawdown of funds using state funds to pay expenditures and operate on a quasi-reimbursement basis. Other states utilize drawdowns to provide advances to subrecipients for prospective expenditures. In addition, the reporting of disbursements takes on different meanings depending on the level of the report, e.g., statewide versus local. The disbursements reported should reflect those made by the appropriate reporting entity. Another inconsistency stems from timing issues. Requests for cash made at end of the reporting period may not be paid by the last day of the reporting period. In this case, they should not be reported as "Federal cash received" during the period. As provided in the reporting instructions, reported disbursements should reflect only those made from Federal cash received.

b. **Expenditures**. There has been some discussion that for the Workforce Investment Act (WIA) formula programs, not all grantees are complying with the requirement for reporting on an accrued expenditure basis. This lack of consistency in the reporting of expenditures affects ETA's ability to provide accurate data to Congress and others regarding the current use of appropriated funds. Inaccurate data may have a detrimental impact regarding decisions on future funding levels. In particular, underreporting of expenditures in a given period may provide the false impression that the funding levels Congress provides meet or exceed current needs. ETA requires all grantees to report expenditures on a full accrual basis; a requirement that has been in place for many years, with a concerted effort to increase accuracy in the past five years. The accrual method has been demonstrated to be a better determination of the actual costs of a particular program at a point in time. Currently, reporting of expenditures on an accrual basis varies among grantees because of the types of accounting systems employed by the different grantee entities. State and local government agencies generally operate on a cash or modified accrual basis. Many non-governmental entities do not account on an accrual basis. Reporting on an accrual basis is further complicated when various expenditures for administrative costs are allocated among various funding streams via the

cost allocation process. Because of the way in which these systems process accounting entries and record expenditures, grantees must work to record and report accruals when preparing the quarterly ETA 9130 reports (Office of Management and Budget (OMB) No. 1205-0461).

A 2009 analysis indicated an increase in reported costs over previous periods which would be consistent with an increased use of accrual reporting methods; however, there is little actual data to support assertions that states or discretionary grantees either comply or do not comply with requirement to report on an accrual basis. Nevertheless, anecdotal evidence indicates that many accruals, particularly at the subrecipient levels, are not being reported.

c. **Obligations**. The obligation data grantees report provide ETA an expanded picture of how funds are being utilized through the current period, as well as in future periods, as obligations represent definite commitments which will result in future expenditures. Accurate tracking of this data provides grantees with critical information needed to manage their grant funding over the period of fund availability. In particular, obligations which are over-reported may result in the loss of funds to the grantee and ETA if the funds expire before they can be used. In addition, ETA is aware of discussions in the grantee community relating to whether projected training costs should be counted as obligations. Section 4 of this TEGL provides the definition of obligations that grantees must follow as well as examples of the types of transactions that do and do not constitute federally reported obligations.

4. <u>Definitions and Examples</u>. In order to minimize the problems described above, this section provides definitions for three terms that must be used by ETA grantees and subgrantees in ETA's financial management and reporting: disbursements, expenditures and obligations. These terms describe varying levels of commitment of resources for goods and services in Federal grant programs. It is essential to use the proper term in each stage of a transaction to ensure accurate accounting and reporting of Federal funds.

a. Disbursement

For ETA's purposes, at the Federal level, disbursement means the transfer of cash from the Federal government to the grantee through the Payment Management System (PMS) maintained by the Department of Health and Human Services (HHS). This then constitutes a cash receipt to the grantee. At the grantee level, disbursement means the transfer of cash from the grantee to a subgrantee or other payee, either by check, voucher or an electronic transfer issued to the entity often through an electronic payment system.

Federal disbursements are measured through the HHS PMS and are the gross cash dollars drawn down against the grantee's overall obligational authority or award amount. The requirements related to cash receipts are governed by the Uniform Administrative Requirements and the CMIA. Both require that grantees maintain minimal cash balances and the excess cash is subject to earning interest that must be returned to the Federal government.

Examples of disbursements at the Federal level are on-line transfers to grantees through the HHS-PMS system. For purposes of the Federal financial reports, these are "Federal

cash receipts." In many cases, this information is pre-entered into the grantee's report. At the grantee level, examples of disbursements include electronic transfers of cash to a subrecipient organization, and payments to vendors for goods and services. For reporting under WIA Title I formula grants, the level of the report (that is, statewide versus local) determines what data should be reported. For reporting statewide activities, an electronic transfer of funds to a local area or a payment to a state subrecipient is an example of disbursement. For local level reporting, a local area payment to its subrecipient or other organization is an example of a disbursement.

b. Expenditures

In general, expenditures (sometimes referred to as outlays) mean charges made to the project or program in support of its authorized activities. These charges may be accounted for on either a cash or accrual basis. However, ETA requires all grantees to report all financial transactions on a full accrual basis. Accrued expenditures mean the charges incurred by the grantee during a given period requiring the provision of funds for: (1) goods and other tangible property received; (2) services performed by employees, contractors, sub-grantees, subcontractors, and other payees; and (3) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments. [29 CFR 97.3]

In general, total accrued expenditures are costs incurred for goods and services received regardless of whether the payment has been made. 29 CFR Part 97 (and with similar language in 29 CFR Part 95) states that:

> "If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through an analysis of the documentation on hand."[1]

For grantees using a cash accounting system, expenditures tracked in their system are actual cash disbursements for charges for goods and services, and payments made for indirect expenses incurred, and also may include the amount of cash advances made to contractors and sub-grantees. Therefore, grantees using cash basis accounting also must maintain accrual worksheets to capture the additional data and documentation required to report their expenditures on an accrual basis. Any cash disbursements representing advances for which expenditures have not yet been incurred must be deducted.

There are various kinds of accrual accounting systems, including modified accrual. All accrual accounting systems do not necessarily capture all the accrued expenditures that should be reported to DOL on a quarterly basis, such as the cost of training that has been received but has not been invoiced. Grantees using an accrual accounting system may also need to develop worksheets to capture additional accruals that must be reported.

Examples of expenditures that are to be reported to ETA include: (a) all costs of goods and services which have been received and paid for; (b) the salaries and benefits earned by employees for work performed or leave taken, whether or not the payroll checks have

[1] 29 CFR 97.41

been issued; (c) the cost of services received by clients/participants, such as child care or transportation, for which the grantee has a legal requirement to pay; (d) the cost of training which has been received by enrolled participants; and (e) the cost of tuition paid up front for participants enrolled in classes as explained below.

It is important to note that accrued expenditures include costs where the services have been received, but not yet billed. A prime example of this is tuition. Tuition costs are often billed months after the participant has entered and received training. Therefore, the cost of the tuition for the training is accrued, even though it has not been billed. On the other hand, tuition is a specific exception, as provided by the Comptroller General, to the prohibition of paying for services before they are received. The full cost of tuition for the current semester/quarter classes in which an individual is enrolled can be expensed when paid up front. By reporting the costs on an accrued basis, grantees may accrue the costs either at the beginning of the semester/quarter when paid up front for, or as the participant receives training. Since the cost of training is often a significant component of expenditures incurred under ETA programs, this provides a much more realistic and timely assessment of the actual costs incurred for training. Please note that accrual of advance payments for tuition applies only to the current term and does not apply to long-term and multi-year training programs, as discussed below.

c. Obligations

Obligation, as defined in 29 CFR 97.3, means the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.[2]

In sum, obligation is a term that references actions where a legal commitment to pay exists. The obligation may occur at the time the services are rendered, or before services are rendered when a binding agreement has been entered into. Grantees must note that the Comptroller General of the United States has issued statements concerning obligations that include: "definite commitment which creates a legal liability" and "definite and certain." (B-136383, June 27, 1958 and B-116795, June 18, 1954). In other words, obligations are legal requirements - not plans, budgets, or encumbrances.

Examples of obligations or legal commitments include subgrant agreements, purchase orders, or cash disbursements. Obligations do not include such actions as projected staff time, future or projected rent payments, future or projected training, or items that are budgeted during the period of the grant award.

Obligations should not be confused with "encumbrances." In accounting, an encumbrance means an anticipated expenditure or funds restricted for anticipated expenditures. Encumbrances are used by organizations to account for projected or budgeted costs that may come due in a current period or a future period. Examples of encumbrances may include: the rent that will be paid for the upcoming year (see discussion below); staff salaries that will be paid when the staff actually performs the work; and projected training costs for participants that are in year long or multi-year training programs. The above examples are encumbrances because none of these items

[2] For reallotment purposes, the Workforce Investment Act of 1998 adds additional language to this definition, found at 20 CFR 660.330.

above meet the more stringent standards of being an obligation, such as being definite and certain and creating a legal liability, and the costs associated with them may not be paid in advance of the actual work, occupancy, or registration for training. Organizations may use encumbrances to set aside funds for known future needs. Encumbrances need to be reviewed on a periodic basis and either obligated or liquidated in order to manage fund availability and use, in accordance with each entity's accounting system requirements.

The use of obligations as a measure of the grantee's financial performance provides for internal controls as they are included in grantee accounting systems and accounted for in accordance with Generally Accepted Accounting Principles or GAAP. There have been discussions in the grantee community that projected training costs should be counted as obligations. Projected training costs do not meet the definitions of obligations found in 29 CFR 97.3 as they do not meet the requirement of being definite and certain, nor do they constitute a legal liability until the participant is registered in a specific course. Further, a Comptroller General decision related to pre-payment of tuition costs states that the period covered by the pre-payment (i.e. the obligation) only extends to the current period the participant is registered and attending classes (Comptroller General Decision [B-148283, 1962]. Therefore, while grantees need to be aware of future needs and should have a system for managing these needs, the inclusion of such items as obligations would violate Federal grantee accounting and ETA reporting standards.

There are also similar discussions regarding reporting leases as obligations. Since rent payments are contingent on continued occupancy, the only portion of a lease that can be reported as an obligation is the amount due if the lease is canceled, often called the cancellation penalty. Appropriate accounting for an operating lease is to record only the current expenditure and include only the cancellation penalty as an unliquidated obligation.

To provide a specific example, Individual Training Account (ITA) amounts for tuition are not obligations at the time the ITAs are issued by the grantee to a participant.[3] They become obligations only at the time the participant enrolls in training at the training institution. The issuance of the ITA is equivalent to a budgeted limit for training. An ITA is a commitment by the grantee to a participant which does not result in a legal commitment until the participant is registered for a class with a particular educational institution. Once the participant registers for classes, the obligation can be recorded. Consequently, the amounts of ITAs for which enrollments have not occurred are merely encumbrances to manage fund availability and use and are not reported to ETA.

Accurate accounting of obligations is important because it directly relates to future funding availability. If a grantee tracks and reports amounts which are not actual obligations, and obligations which are over-reported end up not being liquidated, and unexpended or unused portions of the grant are not de-obligated timely for re-use, funding authority for the grant may expire and the funds would be returned to the U.S. Treasury. Once returned to the US Treasury, these funds are no longer available for the purpose intended. Inefficient utilization of Federal funds results in the appearance that the program did not require all the funds it was previously appropriated. In the past, this

[3] Where ITA is defined at 20 CFR 663.410.

appearance has been used to justify budget reductions and even mid-year rescissions.

5. **Action Requested.** Please disseminate to staff responsible for financial management and reporting of ETA grants.

6. **Inquiries.** Questions regarding this guidance should be directed to the appropriate Regional Office.