

## TEXAS WORKFORCE COMMISSION LETTER

<b>ID/No:</b>	WD 25-08
<b>Date:</b>	July 16, 2008
<b>Keyword:</b>	Financial Reporting
<b>Effective:</b>	Immediately

**To:** Local Workforce Development Board Executive Directors  
Commission Executive Offices  
Integrated Service Area Managers



**From:** Laurence M. Jones, Director, Workforce Development Division

**Subject:** **Cash Draw and Expenditure Reporting System Instructions for Allocations to Local Workforce Development Boards**

---

### **PURPOSE:**

To provide Local Workforce Development Boards (Boards) with:

- expenditure cost categories and descriptions, including a description for administration costs;
- instructions for reporting expenditures and making cash draws;
- requirements for written policies and procedures for cost classifications;
- clarification on the classification of:
  - monitoring and quality assurance costs;
  - property management costs;
  - costs of preparing reports and documents; and
  - profit;
- access to guidance for making subrecipient versus vendor determinations;
- special procedures relating to administrative cost caps\*;
- changes to the Wagner-Peyser Employment Services (ES) administrative cost cap;
- implementation time frames; and
- responses to feedback received from Boards while drafting this WD Letter.

*\*Note:* Special procedures relating to administrative costs apply to Texas Workforce Commission (Commission)–executed grant awards having a beginning date after June 30, 2008. As used in this WD Letter, “grant award” refers to an award of financial assistance by the Commission to a Board that is for Texas Department of Transportation (TxDOT) transportation services funds, or made in accordance with Chapter 800, Subchapter B of Commission rules.

## **BACKGROUND:**

In October 2007, the State Auditor's Office (SAO) issued SAO Report Number 08-002 on its audit of the Commission's Temporary Assistance for Needy Families (TANF) program. Among its findings, the SAO reported that the Commission:

- "should improve its oversight of the types of expenditures that local workforce development boards classify as administrative expenditures" by providing guidance to ensure that Boards correctly identify and report administrative costs incurred by Boards' subcontractors. (As used in this WD Letter, "Board subcontractor" refers to an entity that receives an award of financial assistance under a grant award by a Board.) Although TANF regulations at 45 C.F.R. §263.0(b)(2) and the WD Letter in effect at the time of testing (WD Letter 138-99), required that some of the costs incurred by Board subcontractors be reported as administrative expenditures, all subcontractors' TANF expenditures were reported as direct client services for those Boards tested by SAO; and
- "...does not track how much the local workforce development boards spend on gift cards..." and should "obtain detailed information regarding local workforce development boards' strategies in areas such as gift card distribution and analyze the effect of these strategies on Choices program outcomes."

Both findings contributed to changes in the financial reporting requirements provided in this WD Letter.

On October 19, 2007, the Commission issued WD Letter 45-07 to provide expenditure reporting instructions and cost categories for:

- funds that are allocated to Boards in accordance with Chapter 800, Subchapter B of Commission rule ("allocated funds"); and
- "non-allocated" program funds.

WD Letter 45-07 rescinded and replaced WD Letter 138-99, but built on and incorporated guidance from WD Letter 138-99 in the description for the *Administration* cost category with specific interest in improving the Commission's oversight of administrative costs as recommended by the SAO report.

In order to more clearly distinguish between procedures that apply to allocated funds and those that apply to non-allocated funds, WD Letter 45-07 is being rescinded and replaced by the following two WD Letters:

- This WD Letter, which provides instructions for allocated funds and TxDOT transportation funds; and
- A subsequent WD Letter, which will provide instructions for non-allocated funds.

The following discussion summarizes and provides information on new requirements and options set forth in this WD Letter.

### **Policies and Procedures**

This WD Letter sets forth requirements for written policies and procedures that:

- address the classification of administrative and program expenditures; and
- include the rationale for the classifications decisions set forth by those controls.

Written policies and procedures support efforts for consistent reporting of similar types of expenditures. Inclusion of the rationale behind the policies and procedures aids internal and external users (e.g., auditors and monitors) in understanding intent and consistent application of the same rationale to new or unusual circumstances.

### **Cost Categories**

Attachment 1 identifies the cost categories for allocated funds and TxDOT transportation funds provided through Commission-executed grant awards that begin after June 30, 2008. Attachment 2 provides corresponding cost category descriptions, with the exception of Child Care. Cost category descriptions for Child Care funds will be provided at a later date.

The Cash Draw and Expenditure Reporting (CDER) system Non-Child Care cost categories were revised from those provided under WD Letter 45-07 to:

- facilitate implementation of the special procedures relating to administrative costs that are described below by distinguishing between administration costs that are incurred by the Board and those that are incurred by other entities;
- separately track administrative monitoring costs; and
- separately track expenditures for work-related incentives as recommended in the SAO report.

### **Administration**

The description of the *Administration* cost category provided in Attachment 2 does not apply to Child Care funds. As noted above, the description of Child Care administrative costs will be provided at a later date. Therefore, the following discussion only applies to allocated funds other than Child Care funds.

The description of the *Administration* cost category that is provided in Attachment 2 is based on Workforce Investment Act (WIA) regulations at 20 C.F.R. §667.220, and TANF regulations at 45 C.F.R. §263.0. The statutes and regulations of other (non-Child Care) funds covered by this WD Letter do not define the term. Therefore, for consistency, this WD Letter applies the WIA and TANF descriptions to all non-Child Care costs covered by this WD Letter.

In this WD Letter, costs to be reported in the *Administration* cost category only include those incurred by limited types of entities as described below. Attachment 2 further describes the costs that constitute administrative costs of these entities.

### **WIA**

The WIA regulations describe administrative costs as the, “allocable portion of necessary and reasonable allowable [administrative] costs of:

- state and local workforce investment boards;
- direct recipients, including:
  - state grant recipients under subtitle B of title I [of WIA], and
  - recipients of awards under subtitle D of title I [of WIA];
- local grant recipients;

- local grant subrecipients;
- local fiscal agents; and
- one-stop operators.” (bullets added)

Of the entities listed in WIA regulations, only the following are affected by Commission-executed grant awards of allocated funds:

- Local workforce investment boards – the group that advises the local grant recipient about local programs, and is responsible for the functions in 20 C.F.R. §661.305.
- Local grant recipients – defined by WIA statute as the chief elected official (or consortium of chief elected officials) for the local workforce development area (workforce area). (WIA §117)
- Local grant subrecipients – under WIA statute, the grant recipient may designate a local grant subrecipient (administrative entity) to assist in administering programs in the workforce area. (WIA §117)
- Local fiscal agent – under WIA statute, the grant recipient may designate a local fiscal agent to manage the disbursement of funds for the workforce area. (WIA §117)
- One-stop operator – a single entity, or consortium of entities, that operate one or more one-stop centers in a workforce area; the role of the one-stop operator “may range between simply coordinating service providers within the center, to being the primary provider of services within the center, to coordinating activities throughout the one-stop system.” (20 C.F.R. §662.400)

In Texas, this translates to allowable administrative costs incurred under Commission-executed grant awards of allocated funds by the following entities:

- local Chief Elected Officials;
- Board members;
- the local grant recipient, administrative entity, fiscal agent, and staff for the Board; and
- one-stop operators.

Additionally, “awards to subrecipients or vendors that are solely for the performance of administrative functions are classified as administrative costs.” The terms “subrecipients” and “vendors” have the meaning defined in Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular, published in Part IV of the Uniform Grant Management Standards (UGMS).

#### TANF

Unlike WIA regulations, TANF regulations do not define administrative costs in terms of the entities that incur the costs, except to exclude “costs for contracts devoted entirely to such activities” as “providing diversion benefits and services, providing program information to clients, screening and assessments, development of employability plans, work activities, post-employment services, work supports, and case management.”

With regard to this provision, the preamble to the TANF regulations provides that, “States should be able to determine the administrative costs associated with contracts and subcontracts based on the function or nature of the contract.” Since the role of a one-stop operator is more than just provider of program services, the description of

*Administration* in Attachment 2 includes the administrative costs of the one-stop operator.

#### Administrative Costs of Other Entities

While administrative costs incurred by entities other than those listed above do not count against administration cost caps, this WD Letter requires such costs to be reported to the Commission in the new program cost category, *709 Subrecipient Operating Costs (non-One-Stop Operator)*, if the entity is a subrecipient as defined by OMB Circular A-133, and the State of Texas Single Audit Circular. Costs reported in this cost category do not apply against administration cost caps; however, such reporting is required by the Commission in order to facilitate its oversight responsibilities for ensuring reasonable funds are available for service delivery.

#### **Monitoring, Property Management, Preparing Reports and Documents, and Profit**

Pages 6–8 of this WD Letter provide guidance for the classification of monitoring costs, property management costs, costs of preparing reports and documents, and profit.

#### **Subrecipient and Vendor Determinations**

The State of Texas Single Audit Circular and OMB Circular A-133 define “subrecipient” and “vendor,” and provide guidance for determining when each type of relationship exists. The Commission provides additional guidance in Appendix J of the Financial Manual for Grants and Contracts (FMGC), available at:

[http://www.twc.state.tx.us/business/fmgc/fmgc\\_toc.html](http://www.twc.state.tx.us/business/fmgc/fmgc_toc.html).

#### **Special Procedures for Administrative Cost Caps**

The Commission will consider Boards’ interim requests to report administrative costs in excess of administrative caps for allocated funds other than Child Care; however, such flexibility is limited to the extent to which the state can do so and remain within its total administrative caps. This option will initially be available for Commission-executed grant awards for allocated funds that begin after June 30, 2008, but before July 1, 2009. The Commission will consider making the option available in subsequent years depending on Boards’ needs and the availability of funds. The procedures below, and Attachments 4 and 5, provide instructions for making the request.

#### **Wagner-Peyser ES Administrative Cost Cap**

The basis for contracting allocated ES administrative funds to Boards will change to align with the provisions of Commission rule §800.57(c), which states, “No more than 10% of the funds expended as part of a workforce area’s *allocation* shall be used for administrative costs, as defined by appropriate federal regulations and Commission policy” (emphasis added). Therefore, when executing grant awards to make allocated ES funds available to Boards, 10 percent of the ES allocation in the grant award will be budgeted for administration (as opposed to 10 percent of the ES operating grant). Similarly, the administration cost cap limits administrative expenditures to 10 percent of total funds expended as part of the total ES allocation (as opposed to 10 percent of funds expended as part of the operating grant only).

### **Implementation Time Frames**

The deadline for full implementation is June 30, 2009; however, other interim deadlines also apply as shown under *Implementation*.

### **Responses to Board Feedback on this WD Letter**

Responses to comments that were received from Boards during the development of this WD Letter are available under *Reference* on the Intranet at:

[http://intra.twc.state.tx.us/intranet/fin/html/fin\\_home.html](http://intra.twc.state.tx.us/intranet/fin/html/fin_home.html).

*Note:* The Intranet is not available to the general public.

## **PROCEDURES:**

Boards must use the CDER system and instructions to report obligations and accrued expenditures, make cash draws, and submit financial contract closeout packages as described in this WD Letter and its attachments.

**NLF**

### **Policies and Procedures**

Boards must maintain written policies and procedures for the classification of administrative and program expenditures that include the rationale for such classifications.

**NLF**

### **Cost Categories**

Boards must use the cost categories described in Attachments 1 and 2 when reporting expenditures. This includes the use of several new cost categories that separately report:

**NLF**

- Board-incurred administrative costs from administrative costs incurred by other entities;
- administrative monitoring costs;
- Board-incurred program management and support costs; and
- work-related incentives.

*Note:* The addition of the cost category to track Board-incurred program management and support costs, as noted in the third bullet, does not authorize Boards to deliver services or determine eligibility, both of which are prohibited by Commission rule §801.53.

### **Classification of Monitoring Costs**

Boards must report monitoring costs as follows:

**NLF**

- *107 Monitoring (Exception: WIA Program Monitoring)*—monitoring costs other than WIA program monitoring costs incurred for a Board's oversight of its subcontractors; or
- *708 Program Management & Support*—WIA program monitoring costs incurred for a Board's oversight of its subcontractors.

Costs reported in *107 Monitoring (Exception: WIA Program Monitoring)* count against administrative cost caps.

*Note:* Any monitoring costs incurred for a subcontractor’s oversight of its own operations (or a subcontractor’s oversight of its subcontractors, if applicable) are not reportable in the above cost categories.

Boards must be aware that, as used in this WD Letter and its attachments, “monitoring” refers to monitoring of programs and projects to determine whether:

**NLF**

- there is compliance with applicable laws, regulations and other requirements;
- performance goals are achieved; and
- expenditures have been made against applicable cost categories and within applicable cost limitations.

Examples of monitoring activities include periodic systemwide, programmatic and fiscal monitoring reviews of programs, and the associated reporting and resolution of findings.

For purposes of this WD Letter, monitoring does not include ongoing control activities that are built into daily activities, such as supervisory or ongoing case file/quality assurance reviews, which should be classified according to the nature of the function being reviewed (e.g., the costs of ongoing quality assurance reviews of case files are programmatic costs because such reviews are a control activity with the purpose of ensuring that clients receive appropriate services and that required supporting documentation is maintained on file).

#### **Classification of Property Management Costs**

Boards must be aware that as used in this WD Letter and its attachments, “property management” refers to activities such as receiving, tracking, assigning, taking inventory, and disposing of real property, equipment, and supplies. Property management costs are administrative costs.

**NLF**

#### **Classification of Costs for Preparing Reports and Documents**

Boards must be aware that as used in this WD Letter and its attachments, “preparing reports and documents” refers to costs of preparing reports and documents to support administrative functions.

**NLF**

#### **Classification of Profit**

With regard to profit earned by a Board subcontractor whose administrative costs must be tracked and reported under this WD Letter, Boards must charge the profit in proportion to the allocation of costs between administrative and program cost categories as described on page II-10-14 of the United States Department of Labor’s *One-Stop Comprehensive Financial Management Technical Assistance Guide* ([http://www.doleta.gov/sga/pdf/FinalTAG\\_August\\_02.pdf](http://www.doleta.gov/sga/pdf/FinalTAG_August_02.pdf)). For example, if a subcontractor that earned profit reported 8 percent of its total expenditures as administrative costs and the remaining 92 percent of its total expenditures as program costs, the profit that it earned would be charged between administrative and program cost categories in the same proportion as its reported expenditures (e.g., 8 percent administration and 92 percent program).

**NLF**

*Note:* Board subcontractors that must track and report administrative costs under this WD Letter include those identified in the descriptions of *Administration* and *Subrecipient Operating Costs (Non-One-Stop Operator)* in Attachment 2.

**Subrecipient and Vendor Costs and Determinations**

Boards must properly report costs arising from vendor and subrecipient relationships.

**NLF**

Boards must use the following to determine whether an entity is a subrecipient or vendor:

**NLF**

- OMB Circular A-133, §§\_\_.105 and\_\_.210;
- State of Texas Single Audit Circular in UGMS, Part IV §§\_\_.105 and \_\_.210; and
- FMGC Chapter 20 and Appendix J.

**Special Procedures for Administrative Cost Caps**

Boards must comply with the following administrative cost caps set forth in Commission rule unless they submit and receive written approval of a *Request for Reporting Excess Administrative Costs*:

**NLF**

- Child Care – \$250,000 if total expenditures are less than \$5 million, otherwise 5 percent of total final expenditures;
- Trade Act Services – 10 percent of total direct program expenditures;
- WIA Formula – 10 percent of total contract expenditures by funding stream (i.e., no more than 10 percent of each of the Adult, Dislocated Worker and Youth funding streams may be expended on administrative costs); and
- 10 percent of the total, respective contract expenditures for:
  - ES;
  - Food Stamp Employment and Training;
  - Project Reintegration of Offenders;
  - TANF (including TANF statewide funded initiatives);
  - Wagner-Peyser 7(b); and
  - WIA Statewide.

*Note:* Child Care funds are not eligible for the option to submit a *Request for Reporting Excess Administrative Costs*.

Boards projecting administrative costs in excess of the above administrative cost caps for grant awards that begin after June 30, 2008, must develop and implement plans for achieving increased administrative efficiencies. Attachment 4 provides guidelines for developing such plans.

**NLF**

Boards must:

**NLF**

- routinely assess the implementation status of the above plan;
- review and adjust the plan as changes occur;
- maintain the plans and assessments on file at the Board office; and
- make the plans available upon request.

*Note:* Boards that submit a *Request for Reporting Excess Administrative Costs* will be required to submit the above plan with their request.

Boards may contact [Fiscal.TA@twc.state.tx.us](mailto:Fiscal.TA@twc.state.tx.us) for assistance in identifying costs that constitute administrative costs under this WD Letter and/or identifying potential opportunities for administrative efficiencies. The goal of such assistance is to aid Boards in developing a menu of administrative costs that Boards can examine against their goals and priorities in order to develop plans for achieving administrative efficiencies.

**LF**

Boards projecting excess administrative costs after considering the effects of the above plan for contracts beginning after June 30, 2008, may request approval to report administrative costs in excess of administrative cost caps.

**LF**

Boards requesting to report administrative costs greater than the administrative cost caps must e-mail a complete *Request for Reporting Excess Administrative Costs* template, along with required supporting documentation, to the Director of the Workforce Development Division by the established deadline:

**NLF**

- May 29, 2009, for grant awards of allocated funds that begin after June 30, 2008, but before July 1, 2009.
- November 15 annually, for grant awards of allocated funds that begin after June 30, 2009, if the Commission makes the request option available.

Attachment 5 provides the *Request for Reporting Excess Administrative Costs* template along with instructions that specify supporting documentation and submission requirements.

*Note:* The May 29, 2009, deadline provides Boards with the opportunity to assess their operations and take actions to increase administrative efficiencies before submitting a request.

**Implementation**

Boards must retroactively apply the reporting requirements of this WD Letter to Commission-executed grant awards that begin after June 30, 2008, but before July 1, 2009, no later than June 30, 2009 (i.e., after certifying expenditures that were incurred during June 2009, the cumulative reported must conform to this WD Letter.)

**NLF**

When implementing the requirements of this WD Letter, Boards must comply with the following dates and deadlines:

<b>Action</b>	<b>Date</b>
Boards implement all requirements of this WD Letter other than those specifically identified below.	July 2008
Boards <i>initiate</i> actions to assess operations and establish plans that will result in compliance with reporting and classification requirements for administrative costs incurred under Commission-executed grant awards beginning after June 30, 2008.	Initiate by July 2008

Boards <i>initiate</i> actions to implement reporting changes required by this WD Letter for Commission-executed grant awards beginning after June 30, 2008.	Initiate by July 2008
Boards <i>begin</i> developing policies and procedures required by this WD Letter for all grant awards.	Begin by July 2008
Boards seeking to report administrative costs in excess of administrative cost caps submit a <i>Request for Reporting Excess Administrative Costs</i> to the Director of the Workforce Development Division.	Submit no later than:  May 29, 2009 (for grant awards that begin after June 30, 2008, but before July 1, 2009)  November 15, annually (for grant awards that begin after June 30, 2009)
Boards fully implement all reporting changes, and complete development of the policies and procedures required by this WD Letter.	Implement no later than June 30, 2009
Commission begins enforcing the reporting changes, and policy and procedure requirements established by this WD Letter for Commission-executed grant awards beginning after June 30, 2008.	July 1, 2009*

\* Prior to July 1, 2009, Boards may be required to demonstrate that they are making reasonable efforts to complete implementation by June 30, 2009.

**INQUIRIES:**

Direct inquiries regarding this WD Letter to Kimberly R. Emmerich, Director of Financial Operations, at [Fiscal.TA@twc.state.tx.us](mailto:Fiscal.TA@twc.state.tx.us).

**ATTACHMENTS:**

- Attachment 1: Cost Category Matrix (Non-Child Care and Child Care)
- Attachment 2: Cost Category Descriptions (Non-Child Care)
- Attachment 3: Reporting Requirements and Effects of Cost Category Changes
- Attachment 4: Plan for Achieving Increased Administrative Efficiencies: Guidelines
- Attachment 5: Request for Reporting Excess Administrative Costs

**RESCISSIONS:**

WD Letter 45-07

**REFERENCE:**

Office of Management and Budget Circular A-133, §§\_\_.105 and \_\_.210  
 Social Security Act, Title IV, Part A, §404(b)  
 Temporary Assistance for Needy Families, Final Rule, 45 C.F.R. §§260.31, 263.0, 263.2, and 263.13  
 Workforce Investment Act, Final Rule, 20 C.F.R. §§662.240, 662.260, 663.200, 664.200, 664.300, 664.410, 664.440, 664.450, 664.460, 664.470, 664.600, 665.310, 665.320, and 667.220  
 Temporary Assistance for Needy Families, preamble commentary, Federal Register, Vol. 64, No. 69, Monday, April 12, 1999, pages 17808–17814 and 17843–17844

Workforce Investment Act, Final Rule, preamble commentary, Federal Register, Vol. 65, No. 156, Friday, August 11, 2000, pages 49364–49367  
United States Department of Labor’s One-Stop Comprehensive Financial Management Technical Assistance Guide (July 2002), page II-10-14  
Uniform Grant Management Standards, Part IV, §§\_\_.105 and \_\_.210  
Texas Workforce Commission Allocation Rules: 40 TAC §§800.52 and 800.72  
Texas Workforce Commission Choices Rules: 40 TAC §§811.42, 811.43, 811.45 and 811.46  
Texas Workforce Commission Food Stamp Employment and Training Rules: 40 TAC §§813.31 and 813.32  
WD Letter 118-99, issued December 10, 1999, and entitled “Uses of Temporary Assistance for Needy Families Funds”  
WD Letter 44-05, issued August 9, 2005, and entitled “Texas Workforce Commission Online Contract Closeout Process”  
WD Letter 46-07, issued September 10, 2007, and entitled “Workforce Investment Act: Guidelines for Implementing WIA Waivers”

**FLEXIBILITY RATINGS:**

**No Local Flexibility (NLF):** This rating indicates that Boards must comply with the federal and state laws, rules, policies, and required procedures set forth in this WD Letter and have no local flexibility in determining whether and/or how to comply. All information with an NLF rating is indicated by “must” or “shall.”

**Local Flexibility (LF):** This rating indicates that Boards have local flexibility in determining whether and/or how to implement guidance or recommended practices set forth in this WD Letter. All information with an LF rating is indicated by “may” or “recommend.”