**WorkforceGPS**

**SMART 3.0 Series: Payment and Cash Management**

**Thursday, October 17, 2019**

*Transcript by*

*Noble Transcription Services*

*Menifee, CA*

GRACE MCCALL: And welcome to "Payment and Cash Management SMART 3.0 training." So without further ado, I'd like to turn things over to one of our speakers for today, Tom DiLisio, senior accountant, DFMAS, United States Department of Labor region six, San Francisco, California. Tom?

TOM DILISIO: Today we're going to be talking about cash and actually we're going to, I'm going to introduce you now because she will be starting the presentation and webinar. So I would like to introduce you now to Chantel Castaneda. She's with the, she's a grant management specialist with the U.S. Department of Labor, the Office of Grant Management, the DPRR division and she's based out of Chicago, Illinois. Chanel, good morning.

CHANEL CASTANEDA: Hi. Hello, everyone. Thank you, Tom. Thank you, Grace. I'd like to welcome everyone to another installment of SMART 3.0. Like Grace said, this is about payment and cash management. ETA thought it would be a great idea to do a section on payment and cash management because the regulations, the Uniform Guidance regulations surrounding cash management have increased so we thought it would be important to discuss this topic.

I just want to remind everybody about what SMART is for if you're new to this ETA webinar series. If not, hopefully you have this acronym ingrained in your head. And SMART stands for Strategies, Monitoring, Accountability, Risk mitigation and Transparency. Hopefully, today as we go through the webinar the four themes of monitoring, accountability, risk mitigation and transparency is seen throughout the presentation.

So let's get started. Oh. One other thing we want to just remind everybody is the grant management toolbox. You will hopefully be seeing all of our resources as well as any desk aids that we produced out of our office. We'll have this branding just to remind our grantees as well as our, as well as your subgrantees or subrecipients about what are the available tools that you have currently in your toolbox in order to assist you in making grant management decisions.

Here it is. Here is an overview of our module. We will talk about the Uniform Guidance standards as well as the DOL exceptions related to managing cash and other cash-like assets. We'll talk about interest, income and programming. The Uniform Guidance has made some changes in regards to interest income and we'll talk about if you do earn program income at your organization or if your subrecipient earns program income. What does it mean when you're thinking about drawing down cash?

We'll also talk about the DOL payment process, very briefly talk about payment management systems as well as some payment options that a pass-through entity has available to them as far as their payment system.

And then we'll also talk about the management of other cash equivalent items such as bus passes and credit cards debit cards, all those things that you may not think are cash or cash-like equivalent. We'll talk about that as well as I'll turn it over to Tom, who will finish up and talk about common mistakes and how to avoid them.

Like I said, under the Uniform Guidance the regulation surrounding payment is much more extensive in comparison to the old guidance and all of this information in the Uniform Guidance can be found at 2 CFR 200.305. That is the main citation in regards to payment requirements.

Here is the financial management standards, those standards in regards to what is expected when we give out grant dollars out to our grantees. What are the basic financial management systems that they must have in place in order to ensure that they are effectively and efficiently, effectively using our grant funds in the most effective manner? And there are -- the Uniform Guidance identifies seven basic principles and two of them relate to cash management.

The first principle, found at 2 CFR 200.302 subsection (b)(4) states that non-federal entities meaning our grant recipients as well as their subrecipients must have an effective control and accountability for all funds, property and other assets that are grant-related. And you must and non-federal entities must ensure that there are safeguards in place to protect these assets and to ensure that they are used solely for authorized purposes only.

The second principle surrounding cash management is at 200 CFR 200.302 subsection (b)(6) and it states that grant recipients must have written policies and procedures to implement payment processes.

You want to make sure that within your written policies in regards to payments and cash management that your policies and procedures address payment, any transfers in cash, any advances and we'll talk about what are some requirements if you are to advance any payment. If you do have reimbursement, what's the frequency of reimbursement? Let's say you are a direct grant recipient and you have a subrecipient. You may put them on a reimbursement basis.

We'll also talk, the payment policies and procedures should also talk about any possible working capital advances and we'll talk about more of that later and as well as any use of resources before requesting any cash advance payment as well as allowing timely payments when making to contractors as well as the use of banks and other financial institutes.

Cash is probably one of the most vulnerable areas in an organization, whether it be petty cash or the checks that you have or the P-cards, procurement cards. Cash is a very vulnerable item so there is a lot, there should be some policies and procedures in place at your organization to ensure that there are proper safeguards in regards to cash and cash-like items as well as there are proper segregation of duties and we'll talk about that. But you want to make sure there are good internal controls surrounding the cash management at your organization.

So let's talk about the internal controls features for cash management. Like I said, the Uniform Guidance requires that at your organization you have written policies and procedures surrounding the payment process. You want to make sure that these policies and procedures detail authorized individuals, who's allowed to draw down cash and if there are any approval processes.

For example, if the draw down you have to make from payment management system, if it reaches a certain amount do supervisors have to get involved and ensure that and to review that those cash drawdowns have supporting documentation? So you want to make sure that all your cash drawdowns, there is supporting documentation surrounding it.

You want to make sure that there are proper segregation of duties. You know, you don't want one person to have all the control when dealing with a cash management process. You want to make sure if your organization allows for it, if there are multiple people in your fiscal group for accounting group that, you know, one person who is drawing down the cash, you have a second person who is authorizing the drawdown of the cash and then maybe you have a third person incorporated in order to reconcile those cash draws versus your expenditures.

So the more people you involve in the cash management process and the payment process, the more it is harder for anyone to commit any wrongdoing at your organization.

You want to make sure that, I talked about this earlier, any cash draws you have supporting documentation. The expectation is that when you draw down cash from payment management system, that it's for immediate use meaning that there are either incoming grant expenditures that are coming into the grant such as payroll.

You want to make sure there is supporting documentation if you are to draw down cash. If it's for payroll you have payroll supporting documentation or if your organization is on a reimbursement process, that the grant costs have already occurred and that you would draw down cash in order to reimburse yourself for those grant costs.

You want to make sure there are, like I said, there are controls in regards to not only cash but cash-like equivalents like debit cards or P-cards, purchase cards, bus passes gift cards. You want to make sure those are properly locked up, that the individuals who approve those gift cards or bus passes, you know, if they are giving them out to participants you want to make sure that there are, there's documentation in the case notes to support why maybe bus passes were given out or gift cards were given out.

You want to make sure access to those items were limited to the right individuals and that they are properly trained. You know, if your organization has business cards you want to make sure that if you have people leaving your organization you take back those business cards and you want to make sure that any time they use their business cards for travel or for purchasing supplies, that there is supporting documentation like invoices and receipts to support those costs.

And then last, you want to make sure, you know, if you're able to, you know, cash forecasting tools are great. You know, last week Trevor Remona (sp) in the last webinar last Tuesday talked about budgeting and budgeting controls. You know, cash forecasting is just another way to forecast your cash needs and this could be incorporated in your budget process.

You want to make sure that when you are making decisions in regards to grant expenditures or forecasting or cash needs you may want to invite some program people into the discussion to ensure that your forecasting is correct. It's hard for a fiscal person, you know, to operate in a silo because there may, they may not be intimate with the knowledge of what's going on in the program side. So incorporating program people can only help you with your forecasting. It can only help you in when you're forecasting your cash needs.

OK. So what's the purpose, the internal control purpose surrounding cash management? Like I said, federal cash should only be drawn down for immediate use, an immediate need. You want to make sure that if you know payroll is coming up, you know payroll is a pretty frequent cost and that if you have a payroll cycle that's biweekly or bimonthly or on the 15th and 30th you could forecast when you would need to draw down those funds in order to make the payroll.

You just want to make sure any cash you've drawn down, any federal dollars you've drawn down is for immediate use. Like I've said before, I want to make sure there's supporting justification or documentation to justify each request.

And the Uniform Guidance now requires that there be every effort to minimize and collect improper payments. The Uniform Guidance now stresses this, that there be effort on the grantee side or I'm sorry, that there be effort by the federal agency to collect improper payment.

And so, we task our grant recipients as well with that requirement to reduce and minimize any improper payment and if there are improper payments, that there be some effort on the grant recipient side to collect those improper payments. And then we want to make sure that all cash equivalent assets are properly accounted for.

Great. So here's just more on internal controls surrounding cash and cash-like equivalent items. Like I said, it should be a written form. The Uniform Guidance requires written policies and procedures surrounding cash and the payment process.

You want to make sure your payment process or your cash management process, that there be a separation of duties, a segregation of duties and it should be distributed amongst several individuals and overseen by an adequate level of supervisory review. And then you should also access, limit the access to all cash-related items. You know, access to passcodes or PINs should be maintained.

We require that for the payment management system there at least be some segregation of duties in regards to payment management systems. You want to make sure that not only one person has control over the PIN or password in order to access your organization's payment management system just because if someone was to leave, you want to make sure that you at least have access to those dollars and that if people do leave, you make sure you limit their access to the payment management system.

We also know that we have some organizations out there that are quite small. They may not have the manpower at their organization to ensure that there is proper segregation of duties surrounding the cash management process. This is a time when you need to start thinking about other compensating controls that you can have at your organization.

This may also be an opportunity to incorporate people outside the fiscal office. Maybe board members could be part of the approval or supervisory positions. They may have a position where they could reconcile cash accounts, cash disbursement accounts. You want to make sure maybe you lower your threshold in regards to approving cash draws or cash disbursement so that there is much more frequent reviews of those processes.

And then also think about incorporating if you're a local area, if you're a small local area, that if your neighboring local area could assist you in the process maybe you could incorporate your neighboring local workforce area in order to maybe provide that additional monitoring in your organization in regards to the cash management process.

So as a small organization, we all understand that you may not have the manpower in order to staff everyone at the proper roles and responsibilities. But this is a time when you could think outside the box and get creative as far as putting in other compensating controls that if there was any, you know, malicious act by someone in your internal organization or, you know, put in compensating controls in order to alleviate any errors or mistakes, these are some things that you could keep in mind in order to have good, reasonable assurance surrounding your cash management process.

OK. We're going to talk very briefly about some regulations that are required under the Uniform Guidance. At 2 CFR 305(b)(7), the Uniform Guidance indicates that federal over-agencies such as ETA as well as any pass-through entities, meaning any grant recipients that have subrecipients, cannot require their grantees or their subrecipients to use a separate depository or financial institute or establish any eligibility requirements in regards to cash deposits; meaning that we can't require as ETA our grantees to maintain our moneys in a separate account.

These moneys once drawn down can be co-mingled, but you want to make sure that you have good accounting systems and records in place to make sure you could track the flow of our dollars from once you draw it down to when it's disbursed out for grant activities. You want to make sure you have a system in place to separately account for any new receipt of federal dollars, any obligations of federal dollars as well as expenditures of grant funds by either the award or the fund source.

Also, our grant recipients are required to ensure that they have adequate insurance over our federal funds. We know that the FDIC, which is a very common insurance at banking institutes, are insured.

The insurance is limited to $250,000, so depending on the amount of money you're drawing down you may need additional insurance coverage in order to have adequate coverage over our federal funds. So just those are some things you have to keep in mind when you receive your grant dollars when you're thinking how to set up your bank accounts in order to receive these federal funds.

Also, at 2 CFR 200.305 subsection (b)(8) of the Uniform Guidance, the Uniform Guidance clarified that interest-bearing accounts are required for advanced payment. So we do allow our grantees to draw down grant funds in advance of grant cost incurred.

However, these advances or these advance drawdowns must be for immediate use. So our expectation that if you were to draw these funds for some payment management system in advance to any grant cost incurred, that the expectation is it would immediately be turned around, these dollars, and be used to pay for allowable grant activity.

It is required that if you do draw it down in advance that you deposit these moneys in interest-bearing accounts except when the following situations incur, which is listed in the slide on your slide. So if you have less than $120,000 in federal awards per year you do not have to place the moneys in an interest-bearing account. If the best available account would earn less than $500 per year, so if the interest is earning less than $500 per year, you wouldn't have to put it in an interest-bearing account.

If it's prohibited by your government, which really doesn't, isn't applicable to our grants. And if it's requirement for an average or minimum balance is so high that it would be infeasible or ineffective to have an interest-bearing account, then you do not have to keep these, any cash advances that you receive from payment management system in an interest-bearing account.

You just want to make sure, you know, like all our federal funds, when you are thinking about any allowable grant costs, you want to make sure you always negotiate the best terms that you possibly can with your local bank. You want to make sure our federal dollars always get the best bang for their buck.

So you can negotiate with your local bank to make sure that your town is adequately covered by any from your FDIC insurance coverage or, you know, if you do have advanced payments, that you get the best interest-bearing account you can get.

OK. So interest income, we talked about this and the Uniform Guidance clarified interest income. So if you do have advanced payments from payment management system, then if you place this in an account that is an interest-bearing account, you want to make sure that if it reaches a certain amount, the interest income, that you recycle those dollars back into our program.

So for states that are governed by the Cash Management Improvement Act, which is the CMIA, if you're a state grantee you will have a CMIA agreement and we'll talk about that more.

But you want to make sure you follow the provisions in your CMIA agreement in regards to interest income. For everybody else that's not a state, if you do earn income in these accounts, earn income on our money that is in these accounts, you've got to remit those dollars annually using the appropriate method that's provided in the Uniform Guidance. And the Uniform Guidance identifies that the ACHs are the best way to remit those interest incomes back to us.

Any interest amount up to $500 per year may be retained by the grantee for administrative expenses. Anything over $500 would have to be annually remitted back to ETA. And then in the case of WIOA grants and Wagner-Peyser funds, interest must be treated as program income, meaning that you would have to recycle these dollars back into or reprogram these dollars back into our program and you would have to expend these moneys on allowable grant activities.

OK. So program income. We talked about this very briefly. You know, interest income is a form of program income. Program income is pretty much any income that is generated as a result of an allowable grant activity and if you do earn program income, it must be reported and treated as program dollars for the ETA grant.

We have an example. I have an easy example of let's say you used grant funds in order to purchase a copy machine. And then sometimes you allow the public to use that copy machine, copier machine, and you charge them maybe $1 a sheet or, I don't know, $1 every hundred sheets.

So any of that income that you've earned because grant dollars were used to purchase that machine, that copier, that means any dollars earned due to that copier you would have to reprogram that back into our ETA program and it would be used on allowable grant activities.

So you want to make sure that if you do earn program income that it is expended during the grant period in which it was earned. So it's good business practice that if you earn program income in that quarter, you should be expending it in that quarter it was earned. And you want to make sure that you expend program income prior to drawing down or requesting more cash from the payment management system.

You, it is required that you record it on your quarterly financial report, which is the ETA 9130 report. That is the report required by our grantees to fill out on a quarterly basis, so if you do earn program income it is expected that you record it, the earning of that income and then you want to make sure you record when you expend it. And this is important when it comes time to close out the grant because when you close out the grant, if there is any program income that has not been spent, the expectation is those monies would be returned back to ETA.

All right. The Uniform Guidance at 2 CFR 200.305(b)(1) expects that there be time, that our grantees make timely payments to our contractors in regards, in accordance with contract terms. So make sure you review if you have any contracts out there, that you review the payment terms of the contract and that you pay them on a timely basis.

A note that this provision only applies to contracts and that subawards have their own requirements. And also keep in mind that any late fees or interest charge due to late payments are not allowable grant expenditures.

OK. Let's do a knowledge check if Grace could pull up the first knowledge check. OK. Question is true or false? Non-federal entities must maintain a separate depository for their federal cash. All right. Looks like around 90 percent answer false and let's look at the answer and the answer is false. That is correct.

You are not required under the Uniform Guidance as a recipient of grant funds to maintain a separate account for our federal cash. If you are a pass-through entity meaning a direct grant recipient that has sub-recipients who are doing maybe you subaward to another entity to do some programmatic work, you cannot require them either to have a separate depository for any federal dollars awarded under the subaward.

All right. We'll keep going. I talked a lot about payment management systems. Hopefully everyone is aware of the payment management system. It is the system where our grantees would draw down funds, grant-related funds. It is run by a separate federal agency. It's actually run by HHS.

Our grantees, once you receive your federal award, you should receive instructions on how to access payment management system. Funds are available 24 hours a day, 365 days a year. So that is why there is a requirement that if you do draw down cash it's for immediate use because you can access these funds any time of the day. Just be aware that if you request funds after 2:00 p.m. Eastern time, you may not get those funds until the next day. They may not be deposited until the next day.

And then you'll want to make sure when you'll close out the grant that your cash received, your drawdown amount from payment management system equals your federal expenditures on your 9130 report. You know, if you drew down more funds than the expenditures you have, it may result in questioned cause and those dollars may have to be returned to ETA.

We talked about this briefly, the State CMIA requirements. If you are a state, you are governed by the U.S. Treasury-State CMIA agreement. You want to look to that agreement in regards to any interest income threshold. The agreement just ensures that there's a process in place to transfer funds between the government and the state in the most effective manner, most effective and efficient manner. So if you are a state grantee, just look to your CMIA agreement for any requirements surrounding your cash management process.

You want to also make sure that if you have multiple federal dollars that you are whenever possible, advanced payments must be consolidated to cover anticipated cash needs for all your federal awards made by the federal awarding agency to the recipient.

So just make sure you consolidate your cash needs. This doesn't mean that you should be using, you know, ETA federal funds in order to pay for you HHS grants' expenditures. It just means that if you do have multiple grant awards, that you consolidate when possible.

Like I said in the earlier, the Uniform Guidance does allow for advanced payments. However, there are some requirements surrounding advanced payments.

If you as a direct grant recipient or your subrecipients need direct, excuse me, need advanced payments, advanced grant payments, you must ensure that there are written policies and procedures to minimize any time lapse between the receipt of these grant funds and the disbursement of these grant funds as well as ensure that these payments are limited to the limited amounts needed.

You should not be drawing down for any maximum amounts. It should be for minimum amounts needed and you want to make sure that it's timed with the actual immediate cash requirements. So you want to make sure you draw down as close to when the cash needs is needed.

We may have some grantees who may place themselves on a reimbursement basis or they may place their subrecipients on a reimbursement basis. That is just one method. It's a second payment method. There's a variety of reasons why you may choose to put yourself on a reimbursement basis. You may choose to do it because maybe you did an assessment of your grant operations and you identified that your cash management process is a little weak so you may want to put yourself on a reimbursement basis in order to make sure there are proper safeguards in regards to the federal dollars.

Or if you are a grantee that's been identified by ETA as being high-risk, maybe you may be placed on a reimbursement basis by ETA, meaning that grant activities occur first before cash grant dollars are given to you. So if this is the case, you want to look to your grant award.

You'll know that if you've been placed on a reimbursement basis when you receive a grant or maybe during your grant and there are the grant award or when you talk to your FPO, you may identify that there could be steps taken in order to remove yourself from a reimbursement basis.

Just make sure if you are placed, if you do have a special, a specific condition in regards to being placed on a reimbursement basis, that you talk to your FPO and the grant officer to identify what are the steps taken that you could take in order to demonstrate that you have a good cash management process in place and that you could possibly be taken out of a reimbursement basis. So look to your grant award to see if you are placed.

We do allow for, the Uniform Guidance does allow for working capital advances. We know that some of our grants do not meet the criteria for advanced payments and they determine that they are unable to operate the grant under a reimbursement basis, that they lack sufficient capital so a working capital advance may be provided.

This may be based -- these advances may be based on estimated disbursement needs for an initial period just to ensure that, you know, advances must be liquidated when actual expenditures are disbursed during the initial period. So you want to make sure that if you do receive working capital advances, that there is a disbursement immediately right after receiving those funds and that you have actual expenditures to support those working capital advances.

And if you are an entity -- a direct grant recipient that works with subrecipients, if you do provide a working capital advance, make sure you, with your subrecipients, make sure you reconcile any working capital advances to any expenditures and make sure that all advances are supported by supporting documentation and allowable grant costs.

You want to make sure, there is an exception, a DOL exception at 2 CFR 2900.7 that states that recipients, direct grant recipients and subrecipients should liquidate existing advances before they request additional advances, so make sure you use up the current advances before you make an additional request.

Here is just some ways to do some cash forecasting tools we talked about, you know, using historical data. For example, I talked about payroll. If you know generally how much your payroll costs are going to be and if you're on a biweekly or a 15th and 30th system, you know how much your payroll expenses usually are so you could forecast those dollars to know how much you need to draw down. Also, utilities and rent, those are pretty standard expenses month over month.

So these are just some things that you could use in order to develop your forecasting system.

And now I will turn it over to Tom, who will take on the rest of this presentation. All right, Tom.

MR. DILISIO: Thank you. Thank you, Chantel, and good afternoon everybody. So I'm going to talk about pass-through entity cash systems and how you manage your subrecipients' cash and how they manage cash.

Keep in mind that, you know, as you're a pass-through entity, when you do your risk assessment you want to look at your -- you want to have some kind of assessment of your subs as you're awarding money to them of how they're going to manage cash. What kind of assets do they have behind them? Do they have other funds available? How you will be disbursing funds with them.

You know, have that discussion with them because certainly they're going to request funds from you and it will be tied to how could you get cash to them. Can they pay, as Chantel mentioned, will they be doing it on a reimbursement basis?

Will they be an advanced basis? Are they a small organization that do not have a lot of financial resources that may be a little at risk where you have to advance funds? But it's really important for you to understand how your subrecipients manage your cash, how they control cash and how you'll be working with them as cash is released to them.

So certainly, we talked about the pass-through advance cash. You know, we want to centralize. We talk about it having it be secure because it is a fungible item and cash is very easy to move around. You may have multiple grant sources where you're drawing from multiple sources and you have to account for those funds even though they're in one bank account. Keep in mind, though; Uniform Guidance has languages about advancing funds to your subrecipients on an advance basis. If they can demonstrate they have a system, you can advance funds.

And you really have to look with you as the pass-through entity, how quickly you get cash to a subrecipient. In my history at ETA, I've been around 28 years. We've seen sometimes it takes organizations a couple months to get cash out to their subs and that just is not acceptable. You can draw cash down from the PMS system overnight and you should have a fairly quick turnaround method to get cash out when they, when your subs request funds.

Not everybody needs to be on a reimbursement system. If they have an acceptable system that you validated, they can get an advance. Usually, reimbursement systems are for entities that may have trouble managing cash, so you want to see how well they do.

You know, another thing just to keep in mind to keep away from is we've seen where pass-through entities request copies of all their expenses of their subrecipients before they release cash and that's really not acceptable. If you're concerned about their expenses, you go out and do a monitoring review and look at that and validate do they have supporting documentation? So you should have a system formed of how they request cash. It should be spelled out with frequencies they will probably be requesting from you.

You'll know their payroll is either monthly or biweekly, so you know you'll expect dates of when they'll be submitting their request to you. You have some idea how much that is, so you can sort of validate and realize that that's a realistic request. You can see if they've, previously cash has been already disbursed that Chantel said and we wanted to withdraw cash from a site available for immediate disbursements.

So they may be requesting an advance, a few days that they need to get those funds, put it in their bank accounts where they can turn around right away and pay their bills. So you want to be sure you validate that system with your subrecipient.

Secondly, withholding payments. You know, the Uniform Guidance talks about if you have issues, high-risk grantees or grantees that are not performing, you have the ability to withhold payments of either contractors or subrecipients if they are not meeting performance or if there is issues until that performance is met. Once they do meet satisfactory completion of work, though, you have to release the payment to them, especially for contractors. Contractor meets the terms of their agreement, legally you're required to pay that bill.

Subrecipients, if you have issues you can withhold payments to get the exact information you need. It may be reports they're not submitting. It may be issues, financial issues you have and you can say we're going to hold these funds available. I should, I'll mention the Department of Labor has done that on occasion with grantees that are not providing us information.

We have put them on a reimbursement basis or we found that there was improper costs being incurred and so forth so we put them on a reimbursement. But once things become acceptable, you have to then begin releasing, going back to your original system of releasing cash to them.

Next slide. You know, if they fail, (on this slide ?) if they fail to comply, also if they have a debt to the United States, you know, we can't release cash. We had an incident where a grantee had a debt as part of a prior legal matter and there was a debt established by the local county. And when they went down to draw their cash from us for the grantee, the county went in and grabbed the cash and we went to the grantee and said you're still responsible for these funds.

So very important that you have to look at some of your subs. They could be in trouble. You have to watch if you hand some cash. That could just be taken away by the federal government and so forth. Certainly, you got to give them reasonable notice that you're going to stop withholding pay, why you're withholding payment, what they need to do to get off that reimbursement basis.

You also have the power and the Department of Labor has this power to suspend awards if we find (improperties ?) going on with the grantee or improper costs, unallowable cost, things like that. You can suspend awards until they meet their performance. There's also situations where we put restrictions on phasing parts of an award. We can say well, we're going to give you enough money to complete phase one. Once you complete phase one, we will work on phase two and will advance you funds to complete phase two.

So this is usually dealing with a grantee that either is not performing, maybe of high risk, may have situations you know when you go out and do monitoring and you note some of these issues. So you have the power as pass-through entity because remember we hold you responsible for all the subrecipients and contracts below you as you pass money through. But the key is here is when you do your risk analysis up front to understand how well the subrecipient, what type of cash system they have, how well they secure cash, how they operate.

We've seen, this is an area we see a lot of abuse, at least, you know, a lot of findings in this area. I when I first started with ETA one of the grantees, they had 19 bank accounts. It was a real mess. We've seen them, checks written to themselves, people signatories, signature stamps, things like that, so it's really important that you understand the entity that you're awarding funds to. Can they safeguard and meet the requirements of the Uniform Guidance regarding cash management?

Next thing we want to talk about is improper payments. This is a comer-on of seven or eight years ago. It's Public Law 107-300. It deals with agencies that expend over $500 million, so it applies to the Department of Labor. It also applies probably to big state agencies that receive multiple grant funds, that they have to have a method to recover improper payments, to minimize their improper payments.

They must report improper payments to the Department of Labor. We are looked at once a year by GAO to see how many improper payments we make and to minimize that and have a method to minimize that. So every organization that meets some of these requirements of the Improper Payment Act has to have a system in place and procedures in place of how they're going to recover improper payments that they may make.

So what are improper payments? They could be overpayments to subawards and contractors. It might be disallowed costs, unauthorized charge costs, payments to participants by the state. For example, we've done reviews where certain states having employment insurance programs made mistakes paying unemployment insurance payments to participants and those as improper payments.

Double payments, uncollected tuition refunds, tuition refunds. We've seen instances where down the row you may receive refunds from awards of your sub that may have not expended all the money or they received the refund from a contractor a couple years after a grant ends and they realize that they get money back. Then you have to have a method that retain those dollars and bring them back to your organization and possibly back to the federal government.

It could be fees and penalties that show you're making a mistake and making a payment to either a contractor or a subrecipient and we try to minimize that. We try to do the vast double-check. Easily missed. Your control features as you're processing payments, is there a check when the person fills out to send an invoice, validates it, it goes up to someone to approve it, it's checked by somebody who may be in an accounts payable section and it's reconciled later and it's closed out. So you want to have steps in place to minimize improper payments.

Let's have a real quick knowledge check if we can. How about true or false? Pass-through entities are generally required to advance cash to the sum of their immediate needs. So we have a mixed -- oh. Sort of 50/50. It's a tight poll. Ah. 50/50 still. So what do we have as the answer? The answer is true.

Pass-through entities are required to advance funds for the immediate disbursement needs unless you have a reason why you're not advancing funds. You'd have to have a reason why of why it's not possible, but the regulations call for you can't advance if they have a method to manage your cash. You're required to advance cash to them unless you have a reason otherwise, then you should notify them of that.

And you should have a reason of how to take them off that if you are on a reimbursement basis. They shouldn't be kept on it. I mean they may have to be kept on a reimbursement basis to the end of the grant, but generally you want to have a method of how you can take them off because also it's a big burden on you and it's a big burden on the organization to have to pre-pay for things and then seek reimbursement, especially if it takes time for you to get cash to them.

Moving right along, we'll skip this knowledge check. There's the answer. OK.

Cash and equivalent items, these are where the fun thing that we see when we go out and do monitoring. ATM PINs, access and cash credit cards, passwords to an account. Who are the signatories on that account? Signature (stance ?), credit cards and gas cards. There has been a big explosion paying supportive service payments with VISA cards or paying for gas cards because it's very convenient. Debit cards, purchase cards for organization, who has access to those? Blank check stock, signature machines.

All these, I could tell you a story about every one of these. I did a review where in a room there's a safe next to me. It's opened. The entire check stock was there with the signature stamp. The credit cards were there. A stack of gas cards were there and VISA cards were there just wide open in the safe. I asked him why isn't the safe shut? They said they don't know the combination. That was quite interesting.

Visa cards. We did a review recently for participants. For payment, the organization gave out VISA cards and it was a large organization. They gave out a substantial amount of participant support payments, supportive service payments to the participants every month. So they would order, you know, several $8,000 to $10,000 worth of VISA cards each month.

Somebody was just -- and they would be at a set amount, $50, $100, maybe $25 in standard amounts. Somebody was just taking a card out and taking money off, a little bit of money off of each card and putting it back in the file before it went out to a customer. We hand out VISA cards to pay for supportive service payments. How do we know if the participant spent those on the required supportive service payment? Similar with the gas cards. So you have to have systems in place to really secure these because we see a lot of abuse in these.

I don't think we see check signing machines anymore. Those are sort of a dated system, but if you do please have access to the password or the sign-in to get the check signing machine to work. This all comes down to who's doing reconciliation of bank accounts? Are there separation of duties to see who's issuing checks, who's got controls of these blank credit cards possibly or these blank checks stock and purchase cards?

Passwords are very important. Is there a backup? You see people leaving an organization and they have the password and they go away and the next person comes along and says we need a password to log into the bank account or log into the PMS system and they don't have it. So you should always have backups to your system as well as security of who has access to them.

Purchase cards from an organization should be very limited. There shouldn't be multiple case managers having purchase cards that go out and buy things as they need to. There should be one and it should be tightly controlled. But this is an area where we really, when we do monitoring we look at very intensely because there is a lot of, it's very easy to abuse these things even though they're very convenient and they're very fungible. So it's real easy to take advantage of them.

They're hard to control because you're dealing with a large volume too and I don't want to take away that. If you're dealing with a lot of participants and gas cards and managing that, it's a substantial amount of workload to track them, get people to sign for them, but you really have to have controls in place. And that's part of having an internal control system to manage if you have petty cash.

I mean we see days and events going away because electronic systems are more convenient using these, we can buy these gas cards or purchase cards and so forth that's easier to buy those and hand those out as opposed to handing out cash and replenishing it.

But they are almost cash, like cash so it's real important that you have systems in place, internal controls in place of who has access. Are they inventoried? Are they checked? Do people turn in receipts to support how they were spent? You also want to have authorization controls of, you know, passwords. How are those secured? What is the backup?

Do you have clear separation of duties? For example, if you sign checks, do you have, do you require two signatures or are there two or three people that can sign a check so if somebody is sick or somebody departs your organization you have somebody else who can sign a check and not have to get new check-signing cards and so forth.

And then, you know, the idea of participants of supportive services. Are you maintaining logs of who you're giving it out, the card out to and are they signing for it? This organization we went to with the credit cards, they were just mailing out the VISA cards to the participants, so we had no control if that person ever received the card or who they even mailed it to.

They could've been mailing cards to their family and friends because it was just a person putting it in an envelope and mailing it out to the individual. There as not tracking of that and there was no validation that the individual ever received the cards. So that was, we disallowed those costs because there was just no documentation behind it. So they are, it's, they're almost like cash so they have to be treated like it. They have to be secured and safeguarded.

A lot of mistakes we see, common mistakes. Separation of duties. We see one individual and that was the case, a lot of cases where there was one individual who controlled the cash, the bank accounts, the checks and so forth and they have full control over that. They do the reconciliations.

They do the bank statements. You know, you see in the paper all the time when there's frauds and so forth and this is probably one of the major mistakes is there's not an adequate separation of duty of somebody over, splitting some of these key duties where they have control of the entire process so there's one we saw.

And we realize there's small organizations that don't have a lot of individuals, but you need to do whatever you can. You may have board members that have to be a signatory or maybe they have to be part of the process that looks at things that can separate some of the duties. You cannot have one person handling it all.

Also we see if you're dealing with a small group of funds, a lot of times we see is they draw out funds. They end up in the wrong account, you know, and surely that can happen, but you have to have a system in place that can track each grant source with where are the funds received? Maybe in one central bank account and accounts for the obligations and expenditures of all those funds, even though they're under one account. Those clear, you have a good chart of accounts and who receives cash so they're deposited into the proper account.

Reconcile, reconciliation. Those need to be timely because that where you can catch if there's a mistake. That's usually when it's the first chance to catch if something doesn't reconcile. Then you trace it down and you find out if there's an issue, so it's very key that reconciliations get done timely and the bank statement comes to someone else besides the person handling cash.

Excess cash on hand and forecasting. We see this not too often but we do see it, especially if you're dealing with a lot of different accounts. I did a review recently of a state and they had done for excess cash because they were drawing from multiple sources and they really didn't have a good estimation method.

But it's very important that you're able to roughly estimate what you need in cash and draw down that much and if you do happen to overdraw, certainly, you know, you can pay other federal bills and replace those dollars, but you want to minimize your next draw, you know, the account for the overdraw the first time. We know it's an estimate so we know it's not as precise. The only precise one is in the reimbursement system but if you're advancing you want to see how your subrecipient has burned off that excess cash or returns it back to you.

Spending our federal dollars on non-federal fund purposes because maybe they didn't get the state grant in time or they spent it on not allowable things that, you know, that's just a lot of cost. You, we look for checks if there's checks issued out of sequence that define if something could be fishy going on. Usually checks are issued in sequence. Why is there a gap? What happened using temporary checks?

Delaying receipts and deposits. When we go out and validate cash, we look at one. Money will come the next day. We look at did it go somewhere else for a couple days before it was deposited because there's, you know it's going to be instant into that account otherwise.

Sometimes we see other receipts coming through that are not accounted for, outstanding check and voided checks. That's another method that's been used for if there's voided checks, that there's checks that have been outstanding more than 90 days we usually say you should void those checks and reissue them or contact the person.

Have they been mailed out and lost because that's cash just sitting out there? And there's been a lot of instances where somebody will take the money and not void the check and because it's key. Your check should not be unlimited when you issue them. You should have a timeline for you see where a check will be. This is no longer valid after 90 days or 120 days.

Certainly, you can pay overdraft fees or interest income or other policies on your account because you get to your cash right away. You shouldn't be overdrawing your account and so forth.

You know, the only thing we talk about and we see a lot of excess inventory. This was the situation with these VISA cards. They had a substantial inventory of VISA cards, so you had a large inventory and trying to keep track of it and secure it presents a problem. Certainly keeping, you have to document how you spend your dollars, so giving out a mass of bus tokens or gas cards or anything that you're paying for supporting services, you need documentation behind that.

If you're paying for bills or you're paying for repairs and stuff, you need to have a way to get the receipt and you should possibly in situations like that pay the entity directly, not pay the participant because certainly if the participant doesn't have the funds, they need a car fixed, you can certainly pay the shop that's going to fix the car directly so that we know the car gets fixed and it just goes right to them.

Petty cash, we already said try to minimize those blank check stocks. Really, you know, you have to secure those and not have them lying about but we do see that on a somewhat regular occasion. Again, checks issued and not mailed or failure to recognize interest program income.

We see interest being earned but it's not reported. As a direct grantee, you're required to report that on your 9130 certainly. As you pass through dollars to your subrecipients, they need to be reporting program income up to you that you roll up then to us or up to the next entity that gave you funds. Program income is easily spent first before the draw, so it should be deducted from the next draw so we know that it's expended.

So let's do a quick knowledge check. So WIOA-funded grant's share of interest earned on federal funds deposited with other non-federal funds in the same bank or treasury account must be treated as program income to the grant. I like this one. You guys are, we have 12 percent that want to hold on to those dollars. Oh. A little more, 15. OK. What is our answer? Let's see. Next slide. The answer is true.

So you know, while you can have one account to maintain all your cash funds, it doesn't matter if they're federal or non-federal, you have to account for them separately on another system. But they can be in one bank account for probably better interest. You just have to allocate the interests as program income between the fund sources.

So let's talk about as we wrap up, let's talk about we have the core monitoring guide that we've issued. It's a public document. It covers cash management and these are some of the indicators.

We talked about cash disbursements. Certainly, when you issue funds to your subrecipients you want to see how do they issue cash? How do they deal with that? How do they manage it so when you're out there reviewing them, that they have a system in place? Want to be sure that those recipients have policies in place and procedures to identify improper payments as well as internal controls, separation of duties, who handles what aspect of the cash system.

I was in my, prior to ETA I was a state auditor and that was one of the first things we did was sit down with everybody. We'd ask them who writes the check? Who approves the check? Who handles the check? Who mails the check? Who gets the bank statement? Who does the reconciliation? Who does cash deposits? Who does cash draws?

Who's got -- you know, we'd go through that. We'd look at who those individuals are and be sure there was adequate separation between those key functions of cash handling with record keeping and reconciliation should be split among different individuals.

Also talk about the deposit insurance. Be sure your accounts are under federally insured bank accounts. I don't want to see sometimes the moment where they wouldn't be covered if there was a bank failure.

We have a SMART checkbook that you can go through for cash management payments and walk through maybe when you're dealing with, when you're doing your risk analysis with a new award or a new subrecipient. You can walk through and see if, check of these and say are these things in as part of your risk assessment? Is the entity able to handle these? Do they do it timely?

Are they accurate? How are they going to deal with supportive service payments and so forth? How do they manage that? You know, you can look into audits and try their financial stability where they are. Do they have other funding sources, should there be a problem, or are they going to be a ban basis? Are they small and would you have to have a system in place to work with a smaller entity and how do you advance funds to them?

This is more of the checklist that is a nice little tool to go through when you're dealing with subrecipients and do they have a policies and procedures blanket as well as to validate how well you do it as an entity as the pass-through entity. Do you have these things in place?

Again, we talked about, so the module just looked over to summarize and review, you know, cash should be limited to immediate needs for disbursement. Certainly, you accrue costs. You report accruals, so cash is usually paid later because you have time to process and invoice that. You should always try to minimize immediate needs. We get cash to you within a day. You should also work with your subs to make sure that you get cash to them fairly timely so they can meet their immediate needs.

You want to monitor balances, so as they request you should have a method in place for how they report back to you. As you disburse the prior cash, that you advance some before they're asking for another advance. Do they have procedures in place? Do they have cash management procedures in place and adequate control, control where (tough goes ?)? Excuse me.

And then, you know, do you have policies in place where grantees that maybe are not performing or some that are not performing and how do you manage? Do you withhold funds? What's the process to do that? What kind of steps are you going to take to get them back online or possibly if they can't get back online how do you go about stopping payment or reimbursement? What are the steps you take to try to get corrective action? Excuse me.

Again, we want to point to the Uniform Guidance resources. We have the core monitoring guide. We have the grant and fiscal manager TEGL that will be coming out soon. All those citations, we do have Department of Labor exceptions are loaded in the Uniform Guidance related to cash as well as all the Uniform Guidance citations that relate to cash management and security and safety of assets and some provisions in WIOA. So those are all available to you and so forth.

Other web resources, you know our webpage. We have a lot of information up there. Also WorkforceGPS will have the webinar and our slides up there that you can refer to on occasion and so forth. So we post everything there and various policies and procedures that may be beneficial to keep for review and for updating your policies and procedures.

It's really important. Now is a good time to really look through because we have Uniform Guidance is new. WIOA has been around for a couple years but it's really time to update policies and procedures, be sure they're really in compliance and coordination on conformities of the Uniform Guidance as well as WIOA regulations.

We do still see a lot of outdated policies and procedures out there when we do reviews. So want to make sure that's a real key of how our grantees are going to operate or some recipients are going to operate is how well they maintain policies and procedures because that really spells out what to do in situations for staff.

Again, we have the toolbox that Chantel mentioned in the beginning. All these in place geared toward the SMART training of transparency, accountability, risk assessment and so forth.

And with that, I'm at an end. We'll maybe take some questions.

MS. CASTANEDA: OK. So thank you, Tom. We have a couple questions that we have, the audience has asked us. The first question is with 2 CFR 200.305(b)(8), a pass-through entity that subawards -- just a minute. As a pass-through entity that subawards the funds to the local board, do we need to ensure that they are also following the interest bearing account rule?

So the interest bearing account rule applies to all non-federal entities, so if you are a pass-through entity you want to make sure you're giving funds out to any subrecipients, regardless of the type of organization they are.

You want to make sure that, you know, if they're receiving high amounts of dollars, federal dollars, that they follow the interest bearing account rule, so just make sure -- sorry. I'm looking at my notes to make sure I have it.

But you want to make sure that if they receive any advance of funds, any grant dollars that if they do have advance dollars that you look to see if any of it reaches any of the interest bearing account requirements. So yeah, that is required of all of our non-federal entities, meaning recipients as well as subrecipients. Tom, do you have anything to add to that?

MR. DILISIO: No. No. I think you covered that good.

So we also had a question clarifying pass-through entities are generally required to provide cash advances to their subrecipients. Just like the federal Department of Labor, we advance funds to our grantees through the PMS system. At any time, you can go in and draw. That carries down to your subrecipients unless you have a reason why they shouldn't be allowed for you to advance funds to them.

We cannot, you should not just say, well we're going to put everybody on a reimbursement system or we're going to do this and do that. You have to have a reason for that because we allow you to advance funds. We presume that your subs should be able to advance funds also and you should not put this extra burden unless you have good reason to of why they should have to pay first to get money because we don't do that to you so that carries down certainly.

If you have reasons and that's part of your risk assessment going out there, do they have funds available? You know, you're putting them on a reimbursement, then they may not have funds available to pay all the bills upfront because they're relying on these grant funds, how much time it takes you to get funds to them.

You know, when they submit a reimbursement you have to review it. You draw the cash. We've seen where sometimes it takes two, three months to get money to our subrecipients and that's just unacceptable. So the rule is they're allowed to advance, they're allowed to request advances unless there's a reason why you can demonstrate why there's a situation of why you would say no, we're going to put you on you need to be reimbursed because there's issues. Your reports are not accurate, you're delayed, there's issues with bills; whatever.

You have to have a reason. Otherwise, we have to take them that they're managing their cash also and you validated it. You've gone out, done your risk assessment and seen do they have procedures in place? Do they have systems in place to safeguard it? Do they do reconciliations on time? Do they have good internal controls? And you trust that and you advance them cash.

So we'd say, you know, if you automatically just assume that everybody else has got to be on a reimbursement, then you have to have a reason why you're doing that.

MS. CASTANEDA: OK.

MR. DILISIO: So there was another question about fungible. Fungible is a term that means it's easily transferable or can be used in multiple ways or converted. So we refer to a lot of these things like gas cards and VISA cards as fungible. They're almost like cash because it doesn't take much to convert them to cash.

So that's just a term that we've used where they're not like paper dollar bills, but they're just barely off that. They're easily converted, transferred or swiped and whatnot that they're easily converted to cash and can be used multiple different ways. So that's just a term that they have to be treated like cash because they're very, very similar.

MS. CASTANEDA: Yeah. So just think about it as at your organization cash is probably the most liquid asset you have, meaning it's easily moved around. And then things like gas cards and tokens, bus tokens, anything that's cash equivalent has the same level of liquidity so it can be moved easily around your organization. So that's what fungible means, interchangeable.

MR. DILISIO: Yeah. A good example is how many of you carry cash now? You see people now virtually buy everything with a credit card or a debit card because it's almost like cash, right? Everybody pays for everybody except that very rarely, you'll see people in line buying things pull out a dollar bill and pay. Usually, they're using some kind of card. So it just shows you that it's just like cash.

MS. CASTANEDA: Yeah. And so, just like cash we expect you to have the same protocols and safeguards in place for cash-like equivalents. So that's the importance of this webinar is because we know how easily susceptible that cash could be, so is cash-like equivalents.

All right. We will give it one, a couple more seconds to see if anyone's got any last-minute questions for Tom and I. Just to remind everybody, we have this e-SMART webinar series every Tuesday and Thursday until the middle of November. I think November 19th is our last one at starting at 2:00 p.m. Eastern time.

Also, this series is recorded, so if you would like to hear it again or if you have other individuals in your organization that were not able to attend, they could always refer to the recorded session on our WorkforceGPS page.

Looks like we don't have any more questions, so now we will just close it out and turn it back to Grace.

(END)