

MASSACHUSETTS

Workforce Investment Act

STEERING COMMITTEE

WIA Communication No. 00-43

☒ **Policy**

☐ **Information**

To: Chief Elected Officials
Workforce Investment Board Chairs
Workforce Investment Board Directors
Area Directors or Designee
Career Center Directors
DET Regional Directors
DET Area Directors

cc: WIA State Partners

From: Jonathan Raymond, President
Corporation for Business, Work, and Learning

Date: October 18, 2000

Subject: Cash Management and Cash Requests

Purpose: The purpose of this policy is to set forth:

- (1) policies and procedures to insure minimal cash on hand, and
- (2) revised procedures for requesting cash from CBWL for all funds administered by CBWL.

Background: All operators are required to maintain procedures for management of cash from federal grants. The requirements for cash payments are found in the OMB Regulations at 29 CFR 95.22 and 29 CFR 97.21. Cash advances must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the operator in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the operator for direct program or project costs and the proportionate share of any allowable indirect costs.

CASH MANAGEMENT AND CASH REQUESTS

A. Federal Constraints

Each recipient and subrecipient shall be paid in advance, provided it maintains or demonstrates the willingness and ability to limit advanced funds to the actual immediate disbursement needs in carrying out CBWL funded programs. When this basic standard is not met, reimbursement is the preferred funding methodology. Cash on hand attributable to CBWL programs, including program income, refunds and audit recoveries, etc., must be disbursed before requesting additional cash payments.

B. State Constraints

In addition to the federal regulations governing minimal cash balances, CBWL subrecipients' cash payment procedures are subject to the Commonwealth's constraints regarding the method by which CBWL receives its federal funds.

CBWL must comply with the Cash Management Improvement Act and the method by which federal cash is paid to CBWL by the Commonwealth. Because CBWL is a quasi-public entity, the Commonwealth treats CBWL as a vendor and payment is made based upon submission of a Payment Voucher (PV). This process can take two to three weeks from the submission of the PV and affect the timing of payments to subrecipients.

In order to minimize cash at CBWL and the subrecipient level and to insure payments are disbursed to CBWL subrecipients when the cash is needed, the following procedures must be followed in requesting funds.

DEFINITIONS

"Disburse"

Means to issue a check.

"Disbursement cycle"

Means the process and time involved in the execution of an organization's normal payment system. For example, if it takes five working days to process a payment, the entity has a five day disbursing cycle. If personnel (salary) payments are weekly and nonpersonnel payments are on a monthly payment cycle, the organization would have two disbursement cycles for consideration.

"Drawdown"

Means any process whereby states request and receive Federal funds, and subrecipients request and receive funds from CBWL.

"Immediate needs"

Means the amount of cash needed on a particular day to pay the amount of disbursements processed. Immediate needs can be determined in the aggregate of several days or the cash needs of each working day, depending on the organization's disbursing cycle.

GRANT CASH REQUEST PROCEDURES

A. Introduction

The time period between when a request for cash is made and the actual cash being available for disbursement is generally two to three weeks. In order to insure the cash is received by the subrecipient when it is needed, subrecipients need to request cash at least 20 days in advance of when the funds are actually needed.

B. Procedures

Instructions for completion of the Cash Request Form are included in Section 3 of this policy.

1. All cash requests must be received in writing by Wednesday of each week. Telephone requests are not permitted. Subrecipients may fax their request to CBWL, followed by the original in the mail. The original request must be received by CBWL prior to the disbursement of the funds.
2. The request form must be complete including the grant #(s) assigned by CBWL.
3. CBWL will submit a drawdown request to the Commonwealth weekly. It is anticipated that funds will be received by CBWL 2-3 weeks from the Friday following the submission of the drawdown.
4. CBWL will issue electronic transfers of funds or subrecipient checks on each Friday for the cash requests included in that drawdown.

C. CBWL Withholding of Payments

There may be occasions when CBWL must withhold payments for one or more grants for which funds have been requested. This will be done only when the subrecipient has been notified by CBWL in writing that the funds are being held, including the reasons for taking this action.

D. Adjustments to Cash Payments/Cash Balances

CBWL makes payments to subrecipients by individual program. Funds must be recorded by the subrecipient in the same grant under which the funds were requested to ensure that the subrecipient's records and CBWL's records match.

CASH MANAGEMENT AT THE SUBRECIPIENT LEVEL

Introduction

Since the time period between when a request for cash is made and the actual receipt of those funds will generally be two to three weeks, it is critical for CBWL subrecipients to implement good cash forecasting procedures.

Forecasting

The cash forecasting system must identify specific needs within a specified time frame. Cash forecasting should be geared to the agency's disbursing cycle. It can be weekly, or on some other defined disbursement cycle or on an "as needed" basis. A valid check clearance pattern is an acceptable method for cash forecasting.

Subrecipients will be subject to the disbursement cycle/payment policies of CBWL and the Commonwealth. In order to improve cash management at the subrecipient level, it is recommended that subrecipients time their disbursements to coincide with the receipt of cash from CBWL.

Some additional considerations for accurate cash forecasting are:

- a. Net Payroll/Payroll Taxes/Fringe Benefits. Net payroll must be used for cash forecasting purposes instead of gross salaries and wages. Normally payroll deductions and tax deposits are disbursed at a time different from the payroll dates. Fringe Benefits, e.g., retirement, medical, FICA, and workers' compensation, are also normally paid in a period different from the corresponding payroll dates. In such instances, cash should not be requested until the actual disbursement dates for items such as payroll taxes and fringe benefit costs.
- b. Accrued expenses. In many instances accrued expenses will exceed cash receipts. Cash is not needed to accommodate an accrual until cash payment is issued.
- c. Obligations. Incurring an obligation does not require cash. Cash is needed only when checks are disbursed for those obligations.
- d. Other cash. To the extent available, operators shall disburse funds available from repayments to and interest earned on a revolving fund, program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

Cash Management at Contractor Level

Reimbursement is the preferred method for funding contractors under a grant or subgrant agreement. However, the awarding agency, recipient, or subrecipient may provide advances to contractors after determining that:

- a. Reimbursement is not feasible because the contractor lacks sufficient working capital. Sources of acceptable documentation to support insufficient working capital include, but are not limited to:
 1. bank statements
 2. certification that agency is precluded by law (specific cite) from using existing cash resources for CBWL grants' purposes
 3. letter from auditor attesting to cash position
 4. prior audit period fund source update.
- b. The contractor meets the cash management standards prescribed by CBWL and the federal government which govern advances to subrecipients; and

- c. Advance payment is in the best interest of the awarding agency. Some considerations for "best interest" determinations, which should be documented, include:
1. any detrimental affects the absence of a cash advance would have on the program
 2. lost efficiencies
 3. lost client advantages
 4. harmful affects of project delays.

CASH MANAGEMENT PROBLEMS

Local Policy

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

Penalties associated with checks rejected for insufficient funds.

Penalties imposed by financial institutions for bounced checks reduce resources available for WIA programs. Normally such penalties can and should be avoided by proper cash management and negotiations with banks.

Adverse Action for Poor Cash Management Practices

Poor cash management practices include, but are not limited to:

1. Excess cash
2. Lack of documented cash forecasting system
3. Cash in the checkbook not reconciled to the books of original entry.

If monitoring visits identify poor cash management practices, CBWL will require the subrecipient to institute corrective action within a reasonable period of time. If follow up visits indicate that the corrective action plan does not address the problems or if the corrective action plan is not implemented, then such subrecipients may be placed on a reimbursement basis for payments.

INSTRUCTIONS FOR COMPLETION OF CASH REQUEST FORM (EXHIBIT 1)

Cash request data and forms may only be submitted when an actual request is needed. Do not submit a request form for programs for which funds are not requested. The request must be submitted to CBWL's Accounting Department.

Fill in the Operator Name, Preparer's Name, Preparer's Phone Number, and Preparer's Email Address, CBWL Grant Number, Program Name, and Grant Start and Grant End Dates.

Specify the Period Ending for which cash is being requested.

Line 1 Grant Amount

Enter the amount of the grant as specified in the Contract. Please do not include any funds other than those in the CBWL Contract.

Line 2 CBWL Cash Received Inception to Date

Enter the total CBWL cash received from inception through the current request period for the program for which cash is being requested from CBWL. This must also reflect any cash returned to CBWL.

Line 3 Cash Requested But Not Yet Received

Enter cash requested from CBWL, but not yet received, for the program for which cash is requested.

Line 4 Total Cash

Enter the sum of lines 2 and 3. (If you are using the electronic spreadsheet, the computer will calculate this automatically.)

Line 5 Cash Paid Out Inception to Date

Enter the cash paid out for this program, inception to date.

Line 6 Grant Balance Available

Subtract Line 4 from line 1 and enter the result here. (If you are using the electronic spreadsheet, the computer will calculate this automatically.)

Line 7 Cash On Hand

Subtract line 5 from line 4 and enter the result here.

Line 8 Estimated Cash Needed for this period

Enter the estimated cash needed for the request period for the program for which cash is requested.

Line 9 Amount of This Request

Subtract line 7 from line 8 and enter the result here. (If you are using the electronic spreadsheet, the computer will calculate this automatically.)

Authorized Signature, Typed Name & Title, Date

Please have the request signed and dated by an authorized staff person. It must be a staff person whose signature is on file with CBWL as having the authority to request cash.

Action

Required: All subrecipients must incorporate this policy into their accounting procedures.

Effective: July 1, 2000

References: OMB Regulations at 29CFR95.22 and 29CFR97.21. OMB Circular A-110.

Inquiries: Any questions related to this correspondence should be directed to Elizabeth Durkin at (617) 727-8158 ext. 1304.

Filing: Please file this in your notebook of previously issued WIA Communication Series Issuances as #00-43.