ATTACHMENT A

Instructions for Closeout of Welfare to Work Formula-Funded Activities

This attachment provides detailed instructions concerning the various aspects of the closeout of the "rescinded" formula-funded WtW grants, as well as related activities that have an impact on closeout. States must follow the instructions contained herein.

1. Use of Funds and Cost Limitations

a. Use and Classification of Remaining Funds. States are allowed to expend funds to cover the costs of administrative closeout of the grant. The closeout costs incurred during the closeout period for affected WtW programs will not be subject to the administrative cost limitations and will not be reported as administrative costs on line 5. Rather they will be included on line 4, total expenditures, and reported separately in the remarks section (section 7) of the applicable WtW financial status report. Costs incurred prior to the closeout period but paid during the closeout period will continue to be reported according to the appropriate cost category.

2. Closeout Procedures

a. Establishment of a Framework. It is the responsibility of the States to establish policy and set timelines to assist their subrecipients and contractors with closeout. The timelines established must provide sufficient time to allow the State to comply with those set by the Department of Labor (DOL).

b. Local Plans. Each State should coordinate closeout activities with its subrecipients and may require a local closeout plan. It is suggested that the local plan(s) include, at a minimum, the following:

(1) planned program closeout time schedule;

(2) planned estimate(s) of the portion of FY 1999 allocation (obligational authority) that will be needed to pay for closeout costs. Cash needed to support closeout costs should be drawn down as needed for immediate disbursement needs; and

(3) estimated costs for closeout activities to be incurred after January 23, 2004. These costs may include late claims, unfunded liabilities, termination costs associated with subrecipient agreements, penalties for breaking leases, uncharged accrued leave, records' retention and storage costs, as well as the costs of audit, and those costs required to complete the closeout process. These costs should be itemized by category, i.e., accrued leave, lease penalties and estimated storage costs.

3. Subrecipient and Vendor Agreements

a. In General. Existing agreements for the delivery of services for current WtW participants must be terminated effective the date of the rescission. However, subrecipients and subcontractors may be allowed administrative closeout costs and participants may be allowed to complete prepaid "training" only to the extent that no further program costs are incurred and if such training is not otherwise severable. For example, participants in a prepaid semester course must be allowed to complete the semester. Any other services or activities (OJT, work experience, supportive services, etc.) must have ceased and/or can no longer be charged to the WtW grant, effective at the close of business on January 23, 2004. Any arrangements for continuation of current participants and associated service delivery programs must be worked out through local agreements with the State and local Workforce Investment Act (WIA) program administrators and local boards.

b. Termination Costs. Reasonable costs, often referred to as an equitable adjustment, associated with the termination of subrecipient agreements are allowable. Any other amounts paid in excess of the costs for services provided through January 23, and the reasonable costs of terminating the agreement are unallowable and subject to repayment by the subrecipient. However, if the local awarding entity arranges for the services to continue using alternative funding [e.g., WIA Adult funds], there would be no need to require repayment. Rather, the awarding entity would reverse the WtW charge on its books of account and charge the costs incurred after January 23 to the WIA Adult funding stream. In either case, the amount would be included as part of the WtW unexpended funds.

4. Closeout. When the WtW program was rescinded on January 23, 2004, the fund availability period for all remaining formula funds allotted in Fiscal Year 1999 expired except for those needed to cover closeout costs.

The objective of the financial closeout is to achieve the status where obligated funds, allowable reported costs, and payments (for most recipients the amount of drawdowns) are equal or in balance. Because it constitutes the final closeout of the program, this financial reconciliation must be carefully performed in a manner that pays particular attention to detail. It is imperative to ensure that all costs have been accurately reported and paid, and that the balance of available obligational authority is properly identified.

When obligations, costs and drawdowns are not equal and the discrepancies cannot be reconciled, or where other violations are evident, the grant officer's initial and final determination process will be used to resolve the findings.

The final financial status reports for FY 1999 grants must be submitted with the closeout package no later than 90 days after the receipt of the closeout notification letter unless an extension has been granted. This final report will be in addition to the regularly required quarterly reports submitted to the program office 45 days after the end of the quarter. After the closeout process has been completed, there will be no Federal funds available to pay for allowable late claims. State and/or local funds will be necessary to pay for any such costs.

5. Liabilities Associated With the Closeout Process.

a. Governor's Liability. The ultimate objective of this process is the closeout of the WtW Agreement with ETA. As the recipient of a WtW grant, the Governor is ultimately responsible for the resolution and closeout of all subgrants issued by the State. Therefore, it is in the Governor's best interest to ensure that all local closeout plans are fully developed and have adequate time frames for completing the required tasks.

b. DOL's Liability. DOL will not be liable for any costs that States and their subrecipients failed to pay before closeout. Furthermore, DOL will not be liable for any late claims received by the States. DOL will not have the funds available for such claims.

c. Subrecipient Liability. The local WtW subrecipient will be responsible to the State for all costs related to the WtW subgrants that they have received. All closeout activities must be fulfilled locally and in accordance with the State closeout plan.

6. Unpaid Bills (Liabilities). Unpaid bills are those outstanding, whether received or not, for allowable WtW costs which have resulted from the operation of the programs that have not been paid. These are not closeout costs referenced in Item 1.b. and should be charged to the appropriate cost category. States are expected to ensure that all WtW grant liabilities are paid before closeout. No unpaid bills can be paid with Federal funds after closeout. Any such bills will have to be paid from non-Federal funds.

7. Unclaimed and Uncashed Checks. State and local escheat law should be followed for the handling of unclaimed and uncashed checks. The applicable process is described in detail on page 8 of chapter 2 of the WtW Financial Management TAG. Amounts required to cover all unclaimed or uncashed checks must be included in the total accrued expenditures reported on the final financial status report. Funds required to cover these costs must be drawn down as part of the closeout process.

8. Prepaid Expenses. The prepayment of necessary, reasonable, and allocable costs is allowable. States and subrecipients are authorized to pay for the storage of records for a period of three (3) years from the submittal of the final expenditure report to comply with WtW requirements. When an organization ordinarily charges the cost of a single audit as a direct cost charge to its program(s), they are authorized to prepay the allocable share of the single audit(s) which covers the program year(s) to be closed. No prepayment of single audit costs is authorized when an organization normally charges such costs as indirect or overhead costs.

9. Self-Insurance Funds. Grantees and subrecipients may have established self-insurance funds to cover the costs of workers compensation, unemployment compensation, severance pay and similar employee benefits. Claims submitted during the period allowed for closeout will be paid by the entity from those funds. Upon termination of the

closeout period and submittal of the final expenditure report, the self-insurance account option may be continued unless the local entity is going out of business, in which case the fund should be transferred to the State. Unpaid claims or those received after the closeout of the grant should be paid by the local entity or the State from the fund. Payment of claims will be limited to unexpended funds remaining in each subrecipient self-insurance fund. Any balance of funds remaining in the self-insurance accounts must be refunded to DOL/ETA.

10. Staff Benefit Costs. States and subrecipients must treat staff leave costs in the same manner as staff leave costs are treated in the individual organization's existing written leave policies and procedures.

a. Costing Systems. The two most prevalent leave systems are:

(1) unfunded systems wherein the costs are incurred when cash payment is made to the employee at the time the leave is taken, and

(2) funded systems wherein the cost is incurred at the time leave is earned by the employee and payment is made to the employee at the time leave is taken.

b. Lump Sum Payments. When a WtW staff person is terminated from the employing entity, a lump sum payment for accrued leave will be borne by the WtW grant as a closeout cost in an unfunded system and as a cash payment (unpaid bill) in a funded system. An escrow account may be utilized if necessary.

c. Continued Service. When a WtW staff person is retained by the same employing entity, the liability for leave will be borne by the receiving program/fund source in an unfunded system. An escrow account may be utilized for payment purposes in a funded system. In instances where staff is retained and is working on WTW closeout as well as WIA or other programs, the cost of leave must be pro-rated between the programs based on an appropriate allocation method, e.g., time distribution.

d. Personnel Policies. Local personnel policies will govern the payment of fringe benefits other than leave costs, including severance pay.

11. UI Costs. Unemployment insurance costs properly chargeable to WtW will be paid from each State or subrecipient agreement until final closeout. Once the WtW grant is closed, State and local funds must be used to pay such costs. Organizations and jurisdictions on a contribution basis of UI coverage will not recover any costs associated with a higher organization-wide experience rating as a result of WtW program layoffs.

12. Audits. States and subrecipients must complete normal annual audit cycles in accordance with 29 CFR 97.26, 29 CFR 95.26, and OMB Circular A-133. No additional Federal funds will be provided to cover audit costs.

13. Complaints and Grievances. In accordance with Section 20 CFR 645.270 of the WtW regulations, States should continue to provide a system for processing complaints. Prior to closeout, the costs associated with WtW program complaints being handled by this system should be charged to the WtW grant. After this period, the costs associated with WtW complaints must be paid from non-Federal funds.

14. Equipment and Supplies. The disposition of equipment and supplies acquired with WtW grant funds is discussed in chapter 14 of the WtW Financial Management Technical Assistance Guide and the appropriate administrative regulations at 29 CFR Parts 97 and 95.

15. Refunds. Any funds remaining in the State's WtW account after closeout, plus any other refunds received after closeout, must be returned. Until the HHS-PMS Account has expired (September 30, 2004), States should use the HHS-PMS and submit refunds electronically, to the extent possible. Subsequent to September 30, 2004, all refunds must be returned directly to ETA.

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16. Program Income. Program income generated with WtW funds prior to the rescission, but not used by the termination of the program, must be treated as unexpended grant funds. There are no Federal requirements governing the disposition of WtW program income that is earned after the termination of the WtW program.

17. Records Retention. States are responsible for ensuring that all records associated with the WtW program are retained for three (3) years after submission of the final expenditure report for each year of appropriation. Records must be kept longer if any litigation or audit is begun, or if a claim is instituted involving the appropriated funds or agreement covered by the records. In these instances, records will be retained until the issue has been finally resolved. However, the only authorized closeout cost for record storage is the amount required to meet the three (3) year retention requirement. Since they would constitute an estimated contingency, costs for any longer retention period required must be paid with non-Federal funds. States are responsible for ensuring the retention of records for subrecipients who are disbanding or otherwise unable to retain records. States must also ensure that this requirement is passed on to all subrecipients to ensure compliance.