Chapter Thirteen
Reporting and Cash Payments

In this chapter, you will find the following:

♦ Methods of Payments
♦ Forms of Payments
♦ Obtaining Payments
♦ Rejection of Payments
♦ Withholding Payments
♦ Reporting to TWC
♦ Cash Management
13.01 Methods of Payments

Payment methods that are employed by the Commission and the contractor shall minimize the time elapsing between the transfer of funds from the Commission to contractors for payment to service providers and vendors.

After execution of the contract, contractors may submit financial information, along with a State Purchase Voucher to request funds. Funds are forwarded through three methods: the advance method, the cost reimbursement method, and the working capital method. The TWC accounting department receives and processes the vouchers. The mathematical accuracy and supporting documentation is checked. The department checks the request against the contractor's fidelity bond amount to ensure that the contractor is not drawing more funds than are insured by the bond. The request is also checked against the contract's encumbrance to ensure that the contractor is not drawing more funds than are contracted for. Finally, accounting checks the request for excess cash and then forwards the voucher to the State Comptroller's Office. This process takes approximately two weeks. Warrants are issued by mail, overnight express mail service, corresponding banking, or direct deposit.

To the extent available, contractors shall disburse funds available from repayments to a revolving fund, program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

The Commission reserves the right to reject or withhold payments based on noncompliance with the contract and/or the TWC Financial Manual for Grants and Contracts.

13.01a Advance Method

The advance method affords contractors the opportunity to be paid in advance of actual cash disbursements. To be eligible to use this method, contractors must maintain or demonstrate the willingness to maintain:

1. written procedures that minimize the time elapsing between the transfer of funds and disbursement by the contractor, and

2. financial management systems that meet the standards for accountability established in Chapter Five, Accounting and Financial Management Systems.

Cash advances to a contractor are comprised of a reimbursement component, for allowable costs paid, and an advance component, representing the amount of costs expected to be disbursed in the immediate future. Advance requests shall be limited to the minimum amounts needed, and timed to coincide with the actual, immediate cash requirements of the contractor for direct program or project costs plus the proportionate share of any allowable indirect costs. Advances may be requested weekly.

13.01b Reimbursement Method

The reimbursement method limits the amount of cash which may be disbursed to a contractor to the amount of costs the contractor has actually incurred. The Commission retains the right to change the payment method from advance to the reimbursement method if the following standards are not met:
1. The contractor does not demonstrate to the Commission the willingness and ability to maintain procedures that will minimize the time elapsing between the transfer of funds and their disbursement;

2. The contractor's financial management system does not meet standards described in Chapter Five for accountability; or

3. Under other conditions the Commission warrants appropriate.

This action will take effect upon written notification by the Commission. The Commission may revert to the advance method after deficiencies have been corrected.

13.01c Working Capital Method

The working capital method may be used when the contractor is unable to meet the requirements of the advance method, but lacks sufficient capital to finance the program or project costs on their own. The Commission may advance, to a contractor, a sufficient amount of working capital in order to get the program operating, and then reimburse the contractor for actual costs incurred. The major drawback to this method occurs at the end of the contract, when all working capital funds advanced must be repaid to TWC. Additionally, this method may not be used where the contractor is simply unwilling to abide by the standards of the advance method.

13.02 Forms of Payments

Warrants shall be distributed to the contractor in the manner requested by the contractor. Warrants are generally sent out by:

1. regular mail;

2. courier mail services;

3. corresponding banking - If the contractor's banking institution has a branch office in Austin, Texas, then the Commission can deposit funds in the Austin branch. The contractor would then have access to those funds at its local level branch office; or

4. direct deposit through the State Comptroller's Office.

The recommended method of disbursement is direct deposit. This allows contractor's advances and/or reimbursements to be electronically transferred directly into its bank account.

Direct deposit is the preferred method because:

1. it is faster;

2. likelihood of being lost is significantly decreased;

3. State Comptroller prefers the direct deposit method; and

4. eventually, the State Comptroller will declare direct deposit as the only method for forwarding funds.
13.03 Obtaining Payments

Regardless of the method of payment used by the contractor, in order to receive cash, contractors must complete the Cash Request Form (Exhibit 13-1). Contractors may receive a copy of all forms on disk by requesting a copy from the TWC accounting department. In the heading, all of the information requested is self-explanatory except:

- Vendor I.D. Number is a number assigned by and used by the State Comptroller. To find out what your vendor ID number is, contact the TWC accounting department.

- Request Number is a sequential number assigned by the contractor. The contractor may designate any numbering scheme, but must use it sequentially on all requests. For example, the contractor may designate their first request on this form as 97-1, to indicate their first request in 1997. The second request would then be numbered 97-2, then 97-3, etc.

In the body of the Cash Request Form, all but the following columns are self explanatory:

- Column A requests the Contract/Funding Source/Program. List the JTPA contract number for which funds are requested; list the funding source or program for all other requests.

- Column B requests the Project Code. This may be obtained from the TWC accounting department or the contractor’s state office liaison.

- Column C requests the Program Year and lists several options. PY refers to Program Year (as in JTPA), CY refers to Calendar Year, SY refers to State Fiscal Year, and FY refers to Federal Fiscal Year.

- Column G requests the contractor list Cumulative Cash Refunded To Date. This is the sum of funds, which have been previously drawn, and subsequently returned to the State. For example, a return of excess cash would represent an amount refunded.

- Column H requests Cumulative Expenditures To Date. For contractors on the advance method, cumulative expenditures includes both actual expenditures and obligations. This column should be either reconcilable to the general ledger (for advance method contractors) or agree with the general ledger (for all others).

13.04 Rejection Of Payments

Certain errors or omissions of a more pronounced nature may result in rejections of advance payments by the Commission. When rejection of a request appears necessary, the Commission will contact the contractor. Specific reasons for rejections shall include, but are not limited to the following:

1. lack of authorized signatures on file;
2. omission or unauthorized signature(s);
3. lack of adequate bonding;

4. failure to submit monthly expenditure reports;

5. failure to report appropriate cost categories on the monthly reports;

6. delinquent audit reports;

7. delinquent close-out reports;

8. excessive cash on-hand, as determined by the Commission; and/or

9. a written request from the Executive Director of the Commission to withhold payment. This could occur if the Executive Director was informed of the existence of a criminal investigation of a contractor, although there could also be other reasons for making such a request.

The Commission will adjust requests for funds if the requested amount exceeds the balance available under a contract. **In no event shall cash drawn exceed the contract amount.**

**13.05 Withholding Payments**

The Commission is required to establish fiscal controls to insure the proper disbursement of federal funds. Therefore, the Commission retains the right to suspend funding, in whole or in part, to protect the integrity of funds or to ensure proper operation of programs, provided the contractor is given prompt notice and the opportunity for a hearing within thirty days from the suspension.

Additionally, the Commission may withhold funds if the contractor fails to meet contract provisions.

**13.06 Reporting to TWC**

Contractors are required to report the financial status of their contracts with TWC by the 20th day of each month. The TWC accounting department has devised three forms for use in satisfying the reporting requirements. Contractors report the status of JTPA programs on the Expenditure Report Form - Detail, JTPA Programs (Exhibits 13-2 and 13-3). Contractors report the status of all other programs on the Expenditure Report Form - Detail, Employment and Training Programs (Exhibit 13-4). All contractors must summarize their programs on the Expenditure Report Form - Summary (Exhibit 13-5).

Once again, the TWC accounting department can provide a copy of the reporting forms on disk. On each form, the information requested is self-explanatory. All of the explanations shown in section 13.03, Obtaining Payments, apply to these three forms with the exception of the explanations of Columns G and H. Those explanations apply only to those columns on the Cash Request Form.

The expenditure columns of the three reports are asking for actual expenditures, taken from the contractor’s general ledger. Each form has a separate column for reporting obligations.
13.07 Cash Management

Cash management refers to several processes essential to a well-run organization. The entity must minimize the time lapse between the receipt of TWC funds and disbursal of those funds, and must require the same of its subcontractors. The effectiveness of this procedure is evaluated through excess cash analysis. The entity must additionally evaluate the cash needs of itself and its sub-contractors, and be able to accurately forecast those needs using a cash forecasting system. The effectiveness of this system is evaluated in part by the excess cash analysis and in part by a comparison of amounts advanced with actual expenditures for the same period. The contractor must stay on top of their cash position by reconciling their bank accounts timely. The contractor is required to analyze bank charges for reasonableness in the analysis. The contractor must ensure that the fidelity bond coverage and bank balance insurance protect the contractor from loss. Finally, the contractor must have written policies and procedures which address these issues.

13.07a Security Over Cash

Because cash on hand and in the bank represents the most liquid asset the contractor may possess, security over that cash is of particular importance. The contractor shall ensure that blank check forms, canceled checks, bank reconciliations, check signature plates (if applicable), and other information identifying the bank account be maintained in locking storage areas. The storage areas shall remain locked at all times when immediate access to them is not required. The contractor shall identify and appoint persons cognizant of their fiduciary duties to be check signers and/or custodians of check signature plates. The contractor shall specify a reasonable limit to the check amount requiring a single signature, and shall prescribe dual signatures thereafter. The contractor may require dual signatures on all checks, and/or may require specific signatures for given dollar amounts (i.e. the President of the governing Board must sign all checks over $1,000). Persons with signatory responsibility and/or custody of signature plates shall not serve as asset custodians nor perform any recording duties. All specifications required herein shall be documented in written policies and procedures.

13.07b Security Over Other Liquid Assets

Should the contractor acquire other liquid assets, such as investments in marketable securities, the contractor shall ensure the security of these assets. Other liquid assets shall be maintained in a locked storage area, preferably away from the general office setting. A safe deposit box may be used as an acceptable storage area, however, the cost of the box must be charged to the funds deriving a benefit from the storage space. The contractor shall develop written policies and procedures addressing the maintenance and accountability over other liquid assets.

13.07c Cash Flow Timing

Contractors shall have written policies and procedures that minimize the time laping between the receipt of TWC funds and the disbursal of those funds. Contractors shall ensure that subcontractors have such policies and procedures as well.

In general, contractors shall be paid in advance provided they demonstrate the willingness and ability to limit advance requests to the actual immediate
disbursement needs in carrying out Commission programs. Under no circumstances shall the Commission advance to the contractor an amount in excess of 20% of the contract award. Additionally, if the contractor does not demonstrate the willingness and ability to limit advance requests to the actual immediate disbursement needs, the reimbursement method of payment shall be implemented.

**Note:** The Skills Development Fund Contractors receive their funds 25% at a time. Reimbursement requirements include:

1. an initial payment upon signing of the contract;
2. upon 50% of the training completion and a narrative report submitted in compliance with the contract;
3. upon training completion and submission of a narrative report; and
4. upon final reporting and payroll records submission and contingent upon evaluation of the program performance.

**13.07d Cash Forecasting**

An effective cash forecasting system shall be developed. The objective of a cash forecasting system is to accurately estimate future cash needs and limit the advance request to the minimum amount needed. An effective cash forecasting system will also allow the entity to time the receipt of the cash advance in accordance with the actual, immediate cash requirements of carrying out program activities. If the organization is unable to effectively estimate cash needs and maintains excess cash on hand, the contractor may be required to repay all excess cash and may be placed on the reimbursement method.

Although it is the responsibility of the contractor to determine the best method for estimating its cash needs, the organization should consider the following factors:

1. Any legislative or procedural requirements that the contractor must comply with as a part of a larger organization.
2. The services available to the contractor from the banking industry in its locality.
3. The cost of such services in comparison to potential interest savings if such services are not used.

When designing a cash forecasting system, the contractor shall consider the following:

1. How frequently will checks be written and disbursed?
2. How frequently will cash draws be prepared and submitted to the funding agency?
3. How long is the average period of time between the request of cash and receipt of cash?
4. What documentation will be provided to substantiate current cash needs?
5. How will supporting documentation be filed and maintained?

Contractors should work closely with subcontractors to develop the subcontractor's cash forecasting systems.

When forecasting cash needs, the contractor shall take into account any cash on hand. For example, estimated cash needs should be reduced by any program income, rebates, refunds, contract settlements, audit recoveries, or interest earned on such funds.

1. Definition of Excess Cash

Excess cash is defined as maintaining a cash balance exceeding three days need. Any amount on hand must be related to a valid cost, immediately due and payable; or it may be construed as excess cash. If the forecast of need is inaccurate and over estimated, it should be offset in a subsequent request for payment, when such a request is to be initiated within a reasonable time period. If no immediate request is to be made, any material excess funds shall be returned to the Commission immediately.

2. Determination of Excess Cash

The Commission reviews the fiscal reports submitted by contractors on a regular basis. These reports enable the accounting and fiscal monitoring staff to determine the current fiscal position and fiscal trends of LWBs, SDAs and/or other contractors. If, based on these reports, the Commission determines a more in depth analysis of the LWBs, SDAs or other contractors is required, the Commission may schedule an on-site visit.

Factors to consider when determining excess cash are:

1. contract period;
2. three days need, as defined below;
3. cumulative draws to date;
4. cumulative expenditures to date; and
5. accruals/accounts payable balance.

To determine if excess cash exists, one must compare cumulative cash draws to cumulative expenditures at any given time. If draws exceed expenditures, the difference must be compared to three days need which is the allowable amount of cash to retain on hand.

Three Days Cash Need shall be calculated as follows:

1. \[
\frac{\text{Cumulative Expenditures}}{\text{Number of Months expired}} = \text{Average Monthly Expenditures}
\]

2. \[
\frac{\text{Average Monthly Expenditures}}{20} = \text{Three Days Cash Need}
\]
If the determination of Excess Cash shows that there is excess cash on hand, the Commission may require a more in depth review of the cash account.

### 13.07e Banking Requirements

Although recommended, a contractor need not maintain a separate bank account for each TWC-funded program. However, the contractor must be able to account for the receipt, obligation, and expenditure of funds. The organization must also be able to identify the funds, from any TWC-funded program, in its bank account for the purpose of cash forecasting.

Advances of federal and state funds shall be deposited and maintained in accounts insured by the Federal Deposit Insurance Corporation (FDIC), and collaterally secured, if necessary.

Consistent with the national goal of extending opportunities for women and minority-owned businesses, contractors are strongly encouraged to use banks with a majority of such ownership.

Contractors shall maintain advances of federal funds in interest bearing accounts, unless:

1. the contractor receives less than $120,000 in federal and/or state awards per year,
2. the best reasonably interest bearing account will not be expected to earn interest in excess of $250 per year on advance balances, or
3. the depository requires an average or minimum balance so high that it will not be feasible to maintain with federal, state, and other resources.

The organization's banking institution should be procured, using the above factors and additional considerations listed below.

1. What amount does the bank charge for monthly service charges? What services are included?
2. What amount does the bank charge for special services, such as stop-payments on checks, NSF checks deposited, NSF checks presented, wire transfers, collateral agreements, and others the organization might reasonably expect to encounter?
3. What type of checks will the organization require? What amount does the bank charge for printing this type of check?
4. What fees, charges, and other financial requirements does the bank offer to waive?

Should a non-interest bearing account be utilized, valid cost/benefit information must be demonstrated upon request.

As with any other procurement, the contractor shall maintain documentation of its procurement effort.
13.07f Bank Reconciliations

In order to maintain awareness of its cash position, related to cash forecasting and other reasons, the contractor shall reconcile its monthly bank statement with the general ledger balance of cash on a timely basis. The reconciliation shall be approved by a person without access to the bank account (perhaps the person responsible for cash forecasting) and the approval documented. Permanent reconciling items (i.e. those items which will not be resolved by the passage of time) shall be resolved in a timely manner. Examples include bank encoding errors (contact the bank or post a correction to the general ledger) and credits or debits posted to the account without explanation (contact the bank, obtain explanation, and post to the general ledger).

A sample bank reconciliation form is shown at Exhibit 13-6.

13.07g Fidelity Bonding

Any entity, which receives advances of TWC funds, shall obtain and maintain a fidelity bond. The fidelity bond shall insure the organization from losses that result from all acts of employee dishonesty. The bond may be a blanket bond, covering all employees, or a position bond, covering all employees who occupy specific positions. For additional information refer to Chapter 4, Operational Requirements and Recommendations.

13.07h Collateral Agreements

Governmental units may deposit TWC program funds in their treasury. All other entities shall deposit TWC funds into an account insured by the FDIC. Any TWC balance exceeding the insurance coverage shall be secured by a bank collateral agreement, or other agreement which provides the same protections. A collateral agreement binds the bank, or other financial institution, to pledge securities it holds, to the organization's account should the bank, or other financial institution, become insolvent. A copy of the agreement shall be maintained in the organization's files for monitoring and audit review.

The balance exceeding the insurance coverage must be collateralized. The securities pledged should be evaluated for marketability and liquidity because, in the event of institution insolvency, they would replace the organization's cash deposited. Liquid securities include municipal and state bonds; treasury bills, bonds, and other obligations of the federal government; securities traded over a national stock exchange (New York Stock Exchange, American Stock Exchange, Nasdaq Stock Exchange). The entity shall request a monthly statement of pledged securities, stated at market value. In the event the financial institution will not honor the request, the organization shall research the market value of the collateral and document the research. The Commission recommends that the market value of securities pledged equal one and one-half times the largest amount to be collateralized. In no event may the amount be less than the amount to be collateralized. If the market value of collateral is equal to the amount to be collateralized and the financial institution will not honor a request to state the market value of the pledged securities monthly, the entity shall perform the market value research no less than once a month and document the research for monitoring review and audit. The organization shall institute written procedures for verifying and documenting the adequacy of the pledged securities.
In the event that the collateral agreement expires before the contractor may negotiate a new one, the contractor shall immediately notify the Commission and advances will be limited to a maximum amount of $100,000 or less until such a time as the Commission is notified that a new collateral agreement has been executed.

It shall also be the responsibility of the contractor to ensure that its subcontractors obtain collateral agreements with their financial institutions when it is possible that their account balances may exceed their account insurance coverage.