

§ 205.12

an appropriations act, as enacted, covers the period of the State's expenditure and permits payment for expenses already incurred by the State.

(c) *Lack of obligational authority other than occurring through late appropriations.* If a State pays out its own funds for program purposes without obligational authority, the Federal Government will incur an interest liability if the lack of obligational authority is not the result of limitation, reduction, or termination of the program and where obligational authority is subsequently established to permit payment for the State's expenditure.

(d) *Federal Highway Trust Fund.* The following applies to programs and projects funded out of the Federal Highway Trust Fund, notwithstanding any other provision of this section:

(1) If a State does not request funds at least weekly for current project costs, a Federal interest liability will not accrue prior to the day a State submits a request for funds.

(2) If a State pays out its own funds in the absence of a project agreement or in excess of the Federal obligation in a project agreement, the Federal Government will not incur an interest liability.

(e) *Discretionary grant project approval.* If a State pays out its own funds prior to the earlier of:

(1) The day a Federal agency officially notifies the State in writing that a discretionary grant project has been approved, or

(2) The date that a Federal agency is otherwise obligated in law to pay the discretionary grant project to the State, the Federal Government will not incur an interest liability, notwithstanding any other provision of this section.

(f) *Authorizations and appropriations for future years.* If a State pays out its own funds prior to the availability of Federal funds that have been authorized or appropriated for a future Federal fiscal year, the Federal Government will not incur an interest liability, notwithstanding any other provision of this section.

(g) *Reverse flow programs.* With respect to programs for which the Federal Government makes payments on behalf of a State, such as Supplemental

31 CFR Ch. II (7-1-01 Edition)

Security Income, the Federal Government will incur an interest liability if State funds are in a Federal Government account prior to the day a Federal agency pays out funds for program purposes. A Federal interest liability will accrue from the day State funds are credited to the Federal Government's account to the day the Federal agency pays out the State funds for program purposes.

§ 205.12 State interest liabilities.

(a) *General.* A State will incur an interest liability to the Federal Government if Federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for program purposes.

(b) *Refunds.* A State will incur an interest liability to the Federal Government on a refund transaction of Federal funds. A State interest liability will accrue from the day the refund is credited to a State account to the day the refund is either paid out for program purposes or credited to a Federal Government account. However, a State may adopt a transaction threshold not exceeding \$10,000, below which the State will not incur an interest liability on a refund transaction.

(c) *Reverse flow programs.* With respect to programs for which the Federal Government makes payments on behalf of a State, such as Supplemental Security Income, a State will incur an interest liability to the Federal Government if a Federal agency pays out Federal funds for program purposes on behalf of the State. A State interest liability will accrue from the day the Federal agency pays out Federal funds for program purposes to the day State funds are credited to the Federal Government's account.

(d) *Exception.* Notwithstanding any other provision in this section, a State will not incur an interest liability to the Federal Government if Federal law requires that the interest a State earns on Federal funds must be retained by the State or used for program purposes. This exception shall not be construed

Fiscal Service, Treasury

§ 205.14

to exempt a program from any other provision of this subpart.

§ 205.13 Interest calculation.

(a) *State responsibilities.* A State shall calculate Federal interest liabilities and State interest liabilities for each program subject to this subpart, except as provided for in paragraph (b) of this section.

(b) *Reverse flow programs.* A Federal agency shall calculate Federal interest liabilities and State interest liabilities for a program subject to this subpart for which the Federal agency makes payments on behalf of a State, such as Supplemental Security Income.

(c) *Start date.* Interest liabilities begin accruing the later of July 1, 1993, or the first day of a State's 1994 fiscal year.

(d) *Interest rate.* The interest rate for all interest liabilities pursuant to this subpart is the annualized rate equal to the average equivalent yields of 13-week Treasury Bills auctioned during a State's fiscal year, except as provided for in paragraph (i) of this section. The FMS will provide this rate to each State.

(e) *Interest calculation method and standards.* A State shall calculate and report interest liabilities on the basis of its fiscal year. A State shall ensure that its interest calculations are auditable. As set forth in §205.9, a Treasury-State Agreement must include the method a State will use to calculate and document interest liabilities pursuant to this subpart.

(f) *Statistical sampling.* If a State uses statistical sampling to calculate interest, the State must randomly sample transactions for each program subject to this subpart to ensure, at a minimum, a 95 percent confidence interval subject to a .3 dollar-weighted day bound of error estimate.

(g) *Transactions prior to a State's 1994 fiscal year.* A State shall not include in an interest calculation a transaction in which either the transfer of funds to the State or the pay out of funds for program purposes by the State occurs prior to the later of July 1, 1993, or the first day of the State's 1994 fiscal year.

(h) *Funds withdrawn from a State account in the Unemployment Trust Fund (UTF).* A State shall account for the

actual interest earnings and the related banking costs attributable to funds withdrawn from the State's account in the UTF.

(1) If funds withdrawn from the several accounts in the UTF are commingled in the State's Unemployment Insurance benefit payment account, the funds withdrawn from the State's account must be allocated a pro rata share of the actual interest earnings and related banking costs of the benefit payment account. Funds withdrawn from the State's account in the UTF that are included in investment pools must be allocated a pro rata share of interest earnings of the investment pool.

(2) Notwithstanding any other provision of this subpart, a State's interest liability on funds withdrawn from its account in the UTF consists of the actual interest earnings less the related banking costs of such funds, and shall be deposited in the State's account in the UTF.

(3) This paragraph (h) does not apply to funds withdrawn from the Federal Employees Compensation Account and the Extended Unemployment Compensation Account in the UTF.

§ 205.14 Direct costs of implementation.

(a) *Definition.* Direct costs of implementing this subpart are those costs necessary for the development and maintenance of clearance patterns and those costs necessary to perform the actual calculation of interest liabilities. Direct costs do not include expenses incurred for upgrading or modernizing of accounting systems.

(b) *Reimbursement of direct costs.* A State will be compensated annually for the direct costs of implementing this subpart, subject to the following conditions and limitations.

(1) *Treasury-State Agreement.* A State must have a Treasury-State Agreement with the FMS, as set forth in §205.9.

(2) *Direct cost claim.* A State must submit a claim for direct costs with its Annual Report, as set forth in §205.15(c).

(3) *Documentation.* A State must maintain documentation to substantiate its claim for direct costs.