



COUNTY OF LOS ANGELES  
DEPARTMENT OF ECONOMIC  
OPPORTUNITY

department  
of economic  
opportunity  
COUNTY OF LOS ANGELES

REGULATORY COMPLIANCE  
DIRECTIVE

DATE: October 29, 2024

NUMBER: RCD 24-02

## DEBT COLLECTION

### EXECUTIVE SUMMARY

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The purpose of this Directive is to provide all Department of Economic Opportunity (DEO) subrecipients with the policy and procedural guidance for the collection of disallowed costs.

This Directive supersedes CCD 23-04 dated October 10, 2023, "Debt Collection" and is effective on the date of release. This directive applies to all DEO subrecipients.

### REFERENCES

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- WIOA Public Law 113-128 Section 184
- Title 20 Code of Federal Regulations (CFR) Sections 683.410(a), 683.420(a)(1)(i) and 683.740
- 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225 and 230 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- CA Employment Development Department (EDD) Workforce Services Directive WSD22-07, Debt Collection

### BACKGROUND

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On December 26, 2013, the Office of Management and Budget (OMB) issued the [Uniform Guidance](#), which establishes uniform administrative requirements, cost principles, and audit requirements for federal awards. The Uniform Guidance consolidated multiple, previously separate, sets of OMB guidance into one combined set of rules. The following year, the DOL adopted the OMB Uniform Guidance and issued [DOL Exceptions](#). For more information on Uniform Guidance implementation, please see [TEGL 15-14](#).

On April 22, 2024, the Office of Management and Budget (OMB) revised the Uniform Administrative Requirements streamlining and clarifying requirements for Federal funding.

## DEFINITIONS

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Disallowed Costs - Those charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable federal state or local statutes, regulations, or the terms and conditions of the award.

Final Determination Letter - DEO's correspondence including its decision to allow or disallow questioned costs and resolve any nonmonetary findings.

Final Debt - The amount owed based on DEO's Final Determination Letter if an appeal is not filed, or the decision issued in response to an appeal. Included in final debts are funds due from, but not limited to, incidents of fraud, malfeasance, misapplication of funds or other serious violations or illegal acts.

Stand-in Costs - Substituted costs, disbursed or accounted for from non-federal funds, for unallowable subaward costs, for which there is a proven benefit, costs are for the same period and program, and have been audited.

Subrecipient - An entity that receives a subaward from a pass-through entity to carry out part of an award; but does not include an individual that is a beneficiary of such award. A subrecipient may also be a recipient of other awards directly from a federal, state or local awarding agency.

Suspension - An action by the awarding agency that temporarily withdraws funding under a subaward or suspends contract services, pending corrective action by the subrecipient or pending a decision to terminate the subaward by the awarding agency.

Termination - The ending of a subaward, in whole or in part at any time prior to the planned end of the performance period.

## POLICY AND PROCEDURES

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DEO shall, by any means pursuant to applicable laws and regulations, aggressively pursue the collection of all disallowed costs resulting from monitoring or audit findings, incident reports and/or other reviews.

1. When DEO disallows costs against a subrecipient, it will notify the subrecipient by certified mail or by email of the following:
  - The amount of the disallowed costs;
  - That if the debt is not resolved or a satisfactory alternative repayment plan is not negotiated within 30 days, the debt will become delinquent; and
  - The debtor's administrative appeal rights.
2. DEO will maintain a Repayment Control Log for the subrecipient debtor.

3. DEO will attempt to negotiate resolution of the debt, work with the subrecipient to determine whether stand-in costs are available to satisfy the debt and/or establish an agreed-upon repayment schedule.

### **Stand-in Costs**

The subrecipient may propose the use of stand-in costs to offset disallowed costs. For example, to be considered, stand-in costs must be incurred for costs allowable by subaward that were reported as uncharged program costs, included within the scope of the audit, and accounted for in the auditee's financial system. The stand-in cost must have been expended in support of the same subaward and program year as the costs they propose to replace, and the costs must not cause a violation of cost limitations and requirements. Stand-in costs must be actual expenses paid with non-federal funds. Cash match in excess of the required match may also be considered for use as stand-in costs. Stand-in costs will not be considered in instances of willful disregard, gross negligence, or fraud.

4. If the debt is not repaid or repayment discussion with the subrecipient has not begun within the thirty (30) day period, a debt collection notice will be issued by certified mail or email. The third and final collection letter will indicate that DEO will impose one or more of the following sanctions and remedies:
  - Suspension of payments;
  - Suspension of contract services;
  - Termination of contract;
  - Placement in the Los Angeles County Contractor Alert Reporting Database (CARD);
  - Debarment
  - Referral to the Office of the Los Angeles County Treasurer and Tax Collector;
  - Any actions outlined in DEO's Sanctions and Remedies Directive; and
  - Any actions outlined in the subaward agreement and its Performance Requirement Summary (PRS).

Note: Subrecipients who have unresolved disallowed costs of over \$100,000.00 may not participate in active County solicitations for services unless such findings are resolved to the satisfaction of the County or are the subject of good faith negotiations, so deemed by the County.

5. The subrecipient shall be responsible to repay DEO for all costs associated with debt collection activities, including but not limited to legal and court costs, expenses for the enforcement of the judgment, and attorney fees incurred by the County.
6. DEO shall issue three (3) debt collection letters to the subrecipient at no less than 30 day intervals before imposing sanctions.
7. DEO reports outstanding debts to the LA County-Auditor Controller and County Counsel.

The primary objective of this reporting is to ensure that County liabilities beyond the day-to-day vendor payables are identified, properly recorded into the County's accounting records, and that appropriate actions have been taken to resolve the issue(s) that gave rise to the liabilities. Examples of these outstanding debts include amounts owed to third parties such as the state or federal government due to overbilling or disallowed costs.

In these instances, DEO Finance Division creates a balance sheet account to establish liability provisions and records detailed information including the amount of the liability, name of the program, funding source, fiscal year the liabilities pertain to, and the fund and account numbers where the liability was posted. Along with the account, DEO Compliance Division maintains a description of the issues that caused the liability, whether additional liabilities continue to be incurred, and any actions taken or proposed relative to the payment of the amounts owed.

8. DEO does not allow the termination or compromise of outstanding debt. If DEO has been unsuccessful in collecting an outstanding debt from a subrecipient, DEO may refer the debt to LA County Treasurer Tax Collector to continue collection activities, up to and including litigation.
9. DEO has a process for maintaining a permanent record of all debt collection cases and their status. Once a debt or disallowed cost is established, DEO will create a repayment agreement with the subrecipient, which may include the approval of installment payments. The following details of each payment, whether lump sum or installment, are documented in the subrecipient's case notes:
  - Check number
  - Amount
  - Date
  - Remaining balance, if applicable
  - Repayment Schedule

DEO will maintain all documentation in the subrecipient's file.

### **Methods of Repayment**

Funds being submitted in repayment of disallowed costs should be returned to DEO identifying the title, year, and contract number to which the disallowed cost was originally charged. All debt settlements (including those resulting from fraud, malfeasance, misapplication of funds, or other serious violations or illegal acts) must be made in cash from non-federal sources.

Repayment should be done expeditiously, either as a lump sum or as installments following approval by the County or when required by the funding agency, to resolve the debt. Federal and County funds cannot be used to repay a debt. The standard amount of time allowed for the installment method of repayment ranges from 3 months up to two (2) years, if approved by the County and as required by the funding agency. However, at its sole discretion, the County may extend the time limit up to a maximum of three (3) years due to demonstrated exigent circumstances, unless prohibited by the funding source. Repayment checks should be made out to Los Angeles County and mailed to:

Department of Economic Opportunity  
Attn: FMD – Revenue Management  
510 South Vermont Avenue, 11<sup>th</sup> Floor  
Los Angeles, CA 90020

Failure to repay the disallowed costs within the prescribed timeframes will result in the imposition of sanctions and remedies.

## **ACTION**

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Subrecipients must ensure that the requirements described herein are communicated throughout the operations, management, and governance structure of their respective organizations and that this Directive is adhered to until further notice.

## **INQUIRIES**

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Inquiries regarding this directive and the policies and procedures described herein should be directed to [compliance@opportunity.lacounty.gov](mailto:compliance@opportunity.lacounty.gov).

*Irene Pelayo*

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**Irene Pelayo, Program Manager  
Regulatory Compliance Division**