Basic Fiscal Requirements

Division of Financial Audits
Grant Audits Section
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About the Presenters

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About the Presenters

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About the Presenters

• Conducted audits, investigations, initial reviews and other monitoring activities of ISD, OECS, Non-Profits and IHE’s

• Currently responsible for conducting audits, investigations and monitoring activities of grant programs.
Presentation Agenda

• Financial Accounting System
• Financial Account Code Requirements
• State Laws with Fiscal Implications
• Limitation on Indirect Costs for State Funds
• Federal Fiscal Requirements
• Records Retention Requirements
• Auditor’s Findings
Acronyms Used in Presentation

- CATE  Career and Technology Education
- CFR   Code of Federal Regulations
- IHE   Institute of Higher Education
- ISD   Independent School District
- NCLB  No Child Left Behind
- OECS  Open Enrollment Charter School
- OMB   Office of Management and Budget
- P.L.  Public Law
- RESC  Regional Education Service Center
- TEA   Texas Education Agency
Course Objective and Scope

Upon completion of this course participants will be able to identify the **legal basis** of the **fiscal requirements** applicable to state and federal funding sources.
Financial Accounting System

Comprised of

- Board policies
  - Signature authority over bank accounts
  - Authority to execute contracts
  - Expenditure authority
  - Budget preparation and amendment
  - Financial reporting by charter administrators
  - Authority to create positions
  - Hiring of personnel
Financial Accounting System

- Administrative, including accounting, procedures
  - Processes and standardized forms to be used to comply with board policies and local, state and federal legal requirements

- Accounting software
  - Capture and retain financial data in required form
  - Generate financial reports
Financial Accounting System

- Records
  - Internal accounting forms
    - Purchase orders
    - Payment authorization forms
    - Payroll authorization forms
    - Travel reimbursement forms
    - Employee reimbursement forms
  - Journal vouchers
  - Cost allocation plans and working papers
  - Budget working papers
Financial Accounting System

- Records, (cont.)
  - Original third-party itemized invoices/receipts
  - Contracts, including amendments
  - Bank statements, including cancelled checks
  - Grant applications, amendments
  - Real and personal property inventory schedules

- Personnel
  - Qualified, trained staff
Financial Account Code Requirements

Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart Of Accounts

✓ Account code structure must be at least 15 digits
✓ Must use required account codes
✓ Use locally defined net asset codes to account for fund raising or non-charter activities
✓ Use net asset code 420 to account for state funds
✓ Use function codes and program intent codes to demonstrate compliance with indirect cost rules
✓ Use proper net asset code and fiscal year code to account for federal funds
Financial Account Code Requirements

The Code Structure

- Major Detail
- Account Classification
- Function Codes (1XXN - 3NNX)
- Object Codes:
  - Assets (1XXX)
  - Liabilities (2XXX)
  - Fund Equity (3XXX)
  - Clearing Accounts (4XXX)
  - Revenues/Income (5XXX)
  - Expenditures/Expenses (6XXX)
  - Other Resources/Non-Operating
    - Revenues/Residual Equity
    - Transfers In (7XXX)
  - Other Uses/Non-Operating
    - Expenses/Residual Equity
    - Transfers Out (8XXX)

Indicates a mandatory code for State reporting purposes
Indicates a code that may be used at local option
Texas Education Code
Chapter 12, Subchapter D
§12.1051 – Open Meetings

– Government Code, Chapter 551
– Charter holder and charter school boards must
  » Maintain **accurate and complete** minutes of
    meetings, including original copies of schedules,
    exhibits and other documents provided to board
    members
– Why important?
  » **Official records** of fiscal and fiscally related board
    decisions
Texas Education Code
Chapter 12, Subchapter D

§12.1052 – Records

– Charter holder and charter school must maintain records
  » Financial
  » Governance
  » Payroll
  » Student

– Why important?
  » Records support charter holder’s representations
Texas Education Code
Chapter 12
§12.107 – Status and Use of Funds

- Funds paid to charter holder are
  - **Public funds** for all purposes under state law
  - Held in trust by the charter holder **for the benefit of the charter school’s students**
  - To be **used only for a purpose for which a school may use local funds** under Section 45.105(c)
Texas Education Code
Chapter 45
§45.105(c) – Authorized Expenditures
– Public funds may be used for the following purposes.
» To pay teachers' and superintendents' salaries and interest on money borrowed on short time to pay those salaries that become due before the state funds for the current year become available
» To purchase appliances and supplies
» To pay insurance premiums

Continued on next slide
State Laws with Fiscal Implications

Continued:

» To **pay** janitors and other employees

» To **purchase** school sites

» To **buy, build, repair, and rent** school buildings, including acquiring school buildings and sites by leasing through annual payments with an ultimate option to purchase

» For **other purposes necessary in the conduct of the charter school** as determined by the governing body of the charter school

**Expenditures must have a clear, documented and obvious benefit for charter school students.**
State Laws with Significant Fiscal Implications

Texas Education Code
Chapter 12

§12.128 – Public Property

- Property purchased with public funds is
  » Considered to be public property for all purposes under state law
  » Held in trust by the charter holder for the benefit of the students of the open-enrollment charter school

- Why important?
  » If you use public funds to purchase property, including paying a loan, the building is public property
Limitation on Indirect Costs for State Funds

Title 19 of the Texas Administrative Code

§105.11 – Maximum Allowable Indirect Cost

- Applies to Foundation School Program Special Allotments
  - Compensatory education
  - Gifted and talented education
  - Bilingual education and special language programs
  - Career and technology education
  - Special education
Limitation on **Indirect Costs** for State Funds

- Must expend at least **52%** on **direct costs** for:
  - Compensatory education;
  - Bilingual and Special Language education;
  - Special education

- Must expend at least **55%** on **direct costs** for:
  - Gifted and Talented education

- Must expend at least **58%** on **direct costs** for:
  - Career and technology education
Limitation on **Indirect Costs for State Funds**

- Indirect costs are defined as costs classified under the following function codes:
  - 34 - Student Transportation
  - 41 - General Administration
  - 81 - Fund Raising
Federal Requirements

Legal Structure

• **Statues**
  – Program Statutes
    • NCLB P.L. 107-110
    • IDEA P.L. 108-446

• **Regulations**
  – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations *(34 CFR 74)*
  – **OMB Circular A-122** (Cost Principles for Non Profit Organizations)
  – **OMB Circular A-21** (Cost Principles for Educational Institutions)

• **Guidance**
  – Non-regulatory Guidance
  – Application Guidance
Federal Requirements
Legal Structure

Program Statute

Regulations

34 CFR (EDGAR)

OMB Circular A-122

OMB Circular A-21
Universities/Colleges

Guidance
Questions to Consider

Does the activity meet the intent and the objectives of the enabling legislation?

– Intent and Purpose
– Intended Program Beneficiaries

Questions to Consider

Does the program, activity or strategy address a need previously identified in the campus comprehensive needs assessment?

– The needs assessment is critical as it reveals the priority areas on which the program will focus.
– Provides basis for goals, strategies, and activities
– Driving force of the program
– Guides the program


Additional guidance at:
Non-Regulatory Guidance Designing Schoolwide Programs-
March 2006
Questions to Consider

Is the cost allowable as per the OMB Circular A-122 cost principles?

Costs must be allocable to a particular grant award in accordance with relative benefits received.

- Be incurred specifically for the grant.
- Benefit the grant.
- Be distributed in reasonable proportion to the benefits received.
Questions to Consider

Is the cost allowable as per the OMB Circular A-122 cost principles?

Costs must be **reasonable and necessary** for operations of the program.

- Reasonable costs are **consistent with prudent business** practice and comparable to current market value.

- Necessary **costs essential to accomplishing the objectives** of the project.

- **Must be allowable expenditures** under the authorizing program statutes, regulations, and rules.
Important Links

**eGrants Application Guidelines—Part 1: GENERAL AND FISCAL GUIDELINES**


**eGrants Application Guidelines—Part 2: Program Guidelines and Use of Funds**


http://www.tea.state.tx.us/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=2147485100&libID=2147485099
Questions to Consider

Did your records comply with the Federal Fiscal Regulations in 34 CFR 74?

§74.21 – Standards for Financial Management Systems

- Financial Reporting
  » Emphasis on accurate, current, and complete disclosure

- Accounting Records
  » Emphasis on maintenance of records which adequately identify the source and application of funds

- Internal control
  » Emphasis on effective control over all grant and subgrant cash, real and personal property, and other assets
Questions to Consider

– Budget control
  » Emphasis on **comparison** of actual expenditures to budgeted expenditures

– Allowable cost
  » Emphasis on following rules to determine the **reasonableness, allowability, and allocability of costs**

– Source documentation
  » Emphasis on the **maintenance of source documentation** to support accounting records

– Cash management
  » Emphasis on limiting the **time elapsing** between the transfer of funds from the U.S. Treasury and disbursement by the grantee
Questions to Consider

Is the expense supporting an activity or cost approved in the application?

- [✓] Number of Approved Positions
- [✓] Professional and Contracted Services
- [✓] Capital Outlay
- [✓] Budget Amendments

Questions to Consider

Did you encumber, obligate and expend funds between the **beginning date** and **ending date** listed in the Notice of Grant Award?

– An obligation occurred depending upon the expenditure as follows:

<table>
<thead>
<tr>
<th>Expenditure Type</th>
<th>Date of Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of Property</td>
<td>Date of binding written commitment</td>
</tr>
<tr>
<td>Personal Services by Employee</td>
<td>When services are performed</td>
</tr>
<tr>
<td>Personal Services by Contractor</td>
<td>Date of binding written commitment</td>
</tr>
<tr>
<td>Travel</td>
<td>Actual dates of travel</td>
</tr>
<tr>
<td>Utility Services</td>
<td>When the services are received.</td>
</tr>
<tr>
<td>Rental or lease of property</td>
<td>When the property is actually used or occupied.</td>
</tr>
</tbody>
</table>
Questions to Consider

Obligation of funds (cont.)

- All **services** must be rendered between the beginning and ending dates of the grant.

- All **materials and equipment** must be delivered before the ending date of the grant and must be ordered and delivered in time to substantially benefit the current grant period and in no case after the ending date of the grant.

- All **travel** must occur by the ending date of the grant.

- Pre-award Costs (only if approved)

Records

- **Loss of records**
  - Number one reason for audit adjustments

- **Access**
  - Records *must be maintained* at a physical location that is readily accessible to TEA personnel and the public
    - Office of nonprofit corporation
    - Charter central administrative office
    - Charter campus
  - Records *must be maintained* within the State of Texas
Records
Examples of Record Retention Requirements

Academic achievement record
• Retention: Permanent

Enrollment or Registration Forms
• Retention: Date of withdrawal + 7 years

Parental Permission Records
• Retention: Until cessation of activity for which consent granted + 2 years

Free or Reduced-Price Meal Applications and Rosters
• Retention: 5 years after fiscal year end

Student attendance reports and source documentation
• Retention: 5 years
Records

Open Meeting, including Closed Session, Agendas and Notices
- Retention: 2 years

Minutes
- Retention: Permanent

Contracts, Leases, and Agreements
- Retention: 4 years after the expiration or termination of the instrument according to its terms

Correspondence and Internal Memorandam
- Policy and program development
- Retention: 5 years

Administrative
- Retention: 2 years
Now, let’s take a moment to see what auditors have found.
Common Findings

Auditors find expenditures that

- Do **not** meet statutory purpose
- Are **not** reasonable or necessary
- Support activities and functions **required or necessary** to **carry out state mandates** or **general operations**
What Does “Reasonable” Mean?

A cost is **reasonable** if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

**Cost is not Extreme or Excessive**
What Does “Necessary” Mean?

**Necessary** – essential to accomplish the objectives of a project.

“Necessary to accomplish the objectives of the project” – the project will not be successful without the expenditure of funds for certain items/purposes/activities.

“Necessary” does not mean “Nice to Have”.
Common Findings

• **Account Code Structure** – ensure to follow the 15 mandatory account code structure
  - Fund Codes
  - Function Codes
  - Object Codes
  - Fiscal Year
  - Org Codes

*Refer to the Financial Accountability System Resource Guide (FASRG)*
Common Findings

• **Budgetary Controls** – ensure budgets are aligned to approved grants (NOGA) and are presented accurately in the general ledger
  – Budgets should match the approved award and are adjusted accordingly as they change through the fiscal year.
  – Known obligations should be represented as encumbered transactions (e.g. Contracts).
  – Stay within your budget categories (Payroll, Supplies etc).
  
  **34 CFR 74.21 (b)(4)**

• **Cash Management** – ensure that when an LEA receives a grant from TEA, they operate on a reimbursement model. Funds should not be drawn down until the expenditures have occurred.

  **34 CFR 74.21 (b)(5)**
Common Findings

• **Time & Effort** – when LEAs receive Federal Grants, the LEA must maintain time & effort documentation. Charter Schools & Non-Profits must maintain monthly personnel activity reports.
  – Reports must detail the activities performed
  – Reports must be completely monthly
  – Reports must be reconciled to payroll

  *Non-profit Charter Schools - OMB A-122*
  *IHE Charter Schools - OMB A-21*

• **Data reporting** — ensure that all applicable reporting requirements are met (e.g. Quarterly Reporting)

  *34 CFR 74.51*
Common Findings

Auditors find expenditures that

- Are **not related to instruction**
- Are **prohibited** or not allowed
  - Entertainment
  - Food
- Are **limited**
  - Travel
- Are **not supported**
Questions ???

• Who to contact:
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