Basic Fiscal Requirements

Division of Financial Audits
Grant Audits Section
May 09, 2012
About the Presenters

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Presentation Agenda

• Financial Accounting System
• Financial Account Code Requirements
• State Laws with Fiscal Implications
• Federal Fiscal Requirements
• Questions To Consider
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 and hire positions
  - Use of Credit/Debit Cards
Financial Accounting System

Locally Developed and Approved Administrative procedures

- Accounting for property and supplies purchased
- Financial reporting and cash management for federal grants
- Authorized uses for federal funds
- Maintenance and retention of records
- Travel reimbursement requirements applicable to federal grants
Financial Accounting System

Locally Developed and Approved Administrative procedures

- Time and Effort reporting requirements
- Procurement of goods and services using federal grants
- Support of salaries, wages and related costs charged to federal grants
- Use of credit and debit cards
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
  - Accommodate Appropriations and Encumbrances
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
  • **Time and Effort** Records
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

Indicates a mandatory code for State reporting purposes

Indicates a code that may be used at local option
Financial Account Code Requirements

- **Account Code Structure** – ensure to follow the 15 mandatory account code structure

  - Fund Codes - A mandatory 3 digit code is to be used to identify the net asset group and specific net asset class.
  
  - Function Codes - A mandatory 2 digit code applied to expenses that identify the purpose of the transaction.
  
  - Object Codes - A mandatory 4 digit code identifying the nature and object of an account, a transaction or a source.
Financial Account Code Requirements

- **Account Code Structure** – ensure to follow the 15 mandatory account code structure
  - Org Codes - A mandatory 3 digit code identifying the organization.
  - Fiscal Year - A mandatory single digit code that identifies the fiscal year of the transaction or the project year of inception of a grant project.
  - Program Intent Codes - A 2 digit code used to designate the intent of a program provided to students.
Financial Account Code Requirements

- **Financial Records** - 15 mandatory account code structure
  - Chart of Accounts
  - Detailed General Ledgers
  - Payroll Journals
## Financial Account Code Requirements

### Example – General Ledger

<table>
<thead>
<tr>
<th>Fnc-Obj,So-Org-Prog</th>
<th>Description</th>
<th>Appropriation</th>
<th>Encumbrance</th>
<th>Expenditure</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>STUDENT (PUPIL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34-6000</td>
<td>EXPENDITURES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34-6300</td>
<td>SUPPLIES AND MATERIALS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34-6310</td>
<td>SUPPLIES &amp; MAT-M &amp; O</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*34-6319.00-001-223000</td>
<td>SUPPLIES FOR MAINT. AND</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00*</td>
</tr>
<tr>
<td>GJ-BUDET 09 09-01-2011</td>
<td>OPENING ENTRY</td>
<td>-300.00</td>
<td></td>
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<tr>
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<td>Budget Amendment 1/31/2012</td>
<td>300.00</td>
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<tr>
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<td>SUPPLIES FOR MAINT. AND</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00*</td>
</tr>
<tr>
<td>34-XXXX,XX-XXX-XXXXXX</td>
<td>EXPENDITURES</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>3X-XXXX,XX-XXX-XXXXXX</td>
<td>EXPENDITURES</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Total Expenditures</strong></td>
<td></td>
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<td>0.00</td>
<td>10,693.89</td>
<td>-13,768.11</td>
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<table>
<thead>
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<th>Fund</th>
<th>Total</th>
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<td>-2,427.89</td>
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<td></td>
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<tr>
<td>2XXX</td>
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<tr>
<td>3XXX</td>
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<td>1,000.00</td>
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<tr>
<td>4XXX</td>
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<td>23,462.00</td>
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<td><strong>TOTAL</strong></td>
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# Financial Account Code Requirements

## Example – Payroll Journal

**Date Run:** 02/29/2012 10:24 AM  
**Cnty Dist:**  
For Pay Dates Jan 01, 2012 Thru Jan 31, 2012

<table>
<thead>
<tr>
<th>Employee Name</th>
<th>Account Code</th>
<th>Pay Date</th>
<th>Gross Pay</th>
<th>Contract Balance</th>
<th>Accrued Pay</th>
<th>FICA/Medicare</th>
<th>Workers Comp</th>
<th>Employer Empir Misc</th>
<th>Unemployment Tax</th>
<th>TEA Hith Ins Contrib</th>
<th>Federal Dep/Care</th>
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</thead>
<tbody>
<tr>
<td>287-11-6119.00-001-223000</td>
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<td>01-20-2012</td>
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<td>27,597.42</td>
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<tr>
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<td>1.40</td>
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<td>7.97</td>
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<td>01-20-2012</td>
<td>3,440.34</td>
<td>26,482.05</td>
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<tr>
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</table>

**District Totals**

<table>
<thead>
<tr>
<th>Gross Pay:</th>
<th>Workers’ Comp Tax:</th>
<th>FICA/Medicare Tax:</th>
<th>Empir TRS Care Contrib:</th>
<th>HSA Employer Contribution:</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,734.17</td>
<td>58.68</td>
<td>110.12</td>
<td>42.53</td>
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</table>

<table>
<thead>
<tr>
<th>Accrued Pay:</th>
<th>Employer Contrib:</th>
<th>Federal Deposit/Ins:</th>
<th>Ret Empir Pen:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00</td>
<td>324.00</td>
<td>0.00</td>
<td>.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unemployment Tax:</th>
<th>New TRS Mem:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00</td>
<td>.00</td>
</tr>
</tbody>
</table>

End of Report
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 Special Allotments

- 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

• **Statutes**
  - 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

Time and Effort Reporting Requirements
Regulation - OMB Circular A-122

• The distribution of salaries and wages to awards must be supported by personnel activity reports

• Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.
Federal Requirements

Time and Effort Reporting Requirements
Regulation - OMB Circular A-122

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
Federal Requirements

Time and Effort Reporting Requirements
Regulation - OMB Circular A-122

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.
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


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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.
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>
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 Memoranda
  • Policy and program development
  • Retention: 5 years

Administrative
  • Retention: 2 years
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 ???

• Who to contact:
  Email Division of Financial Audits at schoolaudits@tea.state.tx.us
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