



PSAB Supplement 4

*Federal and State Grants*

MANUAL OF PROCEDURES  
PSAB SUPPLEMENT 4  
FEDERAL AND STATE GRANTS

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## **FEDERAL PROGRAMS INTRODUCTION**

It is important for school districts and charter schools become familiar with federal regulations to ensure that specific requirements which are not covered under state rules and regulations and governed by state statute are followed in accordance with federal rules and regulations.

School districts and charter schools shall follow the most current U.S. Education Department General Administrative regulations regarding *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* and the *Code of Federal Regulations regarding Uniform Federal Assistance Regulations*. These federal regulations are amended annually by the federal government.

In addition, the New Mexico Public Education Department (PED), Administrative Services Division, provides the “Flowthrough Procedures Manual” that details general procedures relating to federal funds. This publication is updated annually and provided to school districts, and is considered to be an integral part of this supplement.

Regional Center (Educational) Cooperatives and (RCCs/RECs) should refer to specific procedures provided by New Mexico Public Education Department (PED), Agency Support Division, regarding financial accounting and budgeting.

## **AGREEMENTS FOR FEDERAL GRANTS**

The most frequently referred to sources for federal grant requirements are the federal program statutes such as No Child Left Behind (NCLB), Title I, IDEA, Perkins, etc. Other references include but are not limited to the U. S. Education Department General Administrative Regulations (EDGAR) and the Office of Management and Budget (OMB) Circulars.

### **Regulations, Circulars and Other Reference Information**

Information on the more commonly used regulations, circulars, and other publications may be useful in the administration of federal funds. The regulations are identified with one or two digits followed by CFR and the section, i.e., 34 CFR 74. The first two digits identify it as the U.S. Department of Education; CFR is the abbreviation for Code of Federal

Regulations; and the 74 identifies the part or section. The circulars are identified with a letter "A" followed by a number, i.e., OMB Circular A-102.

Below is a list of regulations, circulars, and other publications along with information on how they may be obtained/procured.

- **Education Department General Administrative Regulations (EDGAR) – 34 CFR Parts 74, 75, 76, 77, 79, 80, 81, 82, 85, and 86.**
- **U.S. ED Program and Administrative Regulations, 34 CFR 1 - End,**
- **U.S. Department of Education Regulations for the Impact Aid Program; Final Rule 34 CFR Part 218 et al.,**
- **Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments Common Rule -**
- **Single Audit Act of 1984**
- **OMB Circular A-128**
- **OMB Circular A-87**
- **OMB Circular A-102**
- **OMB Major Compliance Supplement**

The federal regulations may be obtained from the Superintendent of Documents, U.S. Printing Office 732 N. Capitol St., Washington, DC 20401 or online [at www.gpoaccess.gov](http://www.gpoaccess.gov).

The OMB Circulars may be obtained from the Office of Management and Budget, Financial Management Division, 725 17<sup>th</sup> Street NW, Washington, DC 20503 or online at [www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars).

## **UNIFORM ADMINISTRATIVE REQUIREMENTS**

Compliance with federal regulation is a condition of receiving federal funds. These requirements can be found in 34 CFR, Part 80, 34 CFR, Part 75 for federal direct grant programs, 34 CFR, part 76 for state administered programs.

The overall objective of the federal cost principles is to ensure that similar types of organizations doing similar work with federal funds follow the same cost principles and procedures. These principles are found in OMB Circular A-87, Cost Principles for State

and Local Governments and OMB Circular A-122, Cost Principles for Nonprofit Organizations.

Audit requirements are found in OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

## **FINANCIAL MANAGEMENT AND ACCOUNTING FOR FEDERAL AND STATE GRANTS**

Those districts and charter schools receiving federal or state grants that are awarded by NMPED must have a proper financial management system (FMS) in place in order to receive and expend funds in accordance with certain mandated standards including but not limited to:

- Fiscal control and accounting procedures to are sufficient to prepare required reports pertaining to grants;
- Accurate, current and complete disclosure of the financial results of each grant program;
- Accounting records that identify the source (by CFDA number and grantor agency (See PSAB Supplement 6, Financial and Compliance Audit);
- Effective control and accountability for all grant funds, property and other assets;
- Comparison of actual expenditures with budgeted amounts for each grant;
- Source documentation such as receipts, canceled checks, paid bills, payroll records, time and effort records, contract and sub grant award documents must be readily available and support accounting records;
- Cash management procedures to minimize the time elapsing between expenditure of funds and requests for reimbursements;
- Procedures for determining reasonableness, allowability, and allocability of grant costs in accordance with appropriate OMB Circulars, EDGAR, and NMPED regulations, and the terms of grant agreements.

## **INTERNAL CONTROL**

Internal control refers to a process designed to provide *reasonable assurance* that the objectives of the grantee organization are achieved. These objectives include but are not limited to the effectiveness and efficiency of the operations, reliability of financial reporting, consistency in program operations, and compliance with applicable laws and regulations. Written internal control policies should be based on the 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the federal Office of Management and Budget. See PSAB Supplement 2, Internal Controls.

The COSO report recognizes that Internal Control is affected by people. People are involved in every process that calls for specific internal controls. The responsibility for good internal control rests with the management of a school district or charter school. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control and sets the general “tone” of the organization. However, all personnel in the organization play important roles by incorporating internal control awareness into their work flow routines.

Internal control consists of five interrelated elements:

1. **Control environment** – Sets the tone of the organization influencing the consciousness of its people;
2. **Risk assessment** – Identifies the relevant risks to achieving the organizations goals and objectives;
3. **Control activities** – Policies and procedures are written, followed, evaluated and revised;
4. **Communications** – Communicates pertinent information in a timely manner and form that allows people to carry out the responsibilities.
5. **Monitoring** – Assesses the performance and quality of the organization’s systems.

While these components apply to all organizations, they may be implemented differently. The Tips, Tools and Resources section to this manual contains sample risk assessment information regarding general internal controls in a checklist format that is valuable to monitoring the effectiveness of controls. This checklist may be revised to fit the needs of a particular school district, charter school, or educational program.

## **BUDGETING REQUIREMENTS FOR FEDERAL AND STATE GRANTS**

Grants must have funds budgeted in the format provided in the grant application. It is important that the district’s or charter school’s program manager and the business office collaborate to ensure that the program objectives and funding requirements are mutually understood and followed, and the budget is accurately translated from the application format to the Financial Management System format used to account for the grant.

### **DISTRICT OR CHARTER SCHOOL PROGRAM MANAGER RESPONSIBILITIES**

The following program manager responsibilities were adapted from the NMPED Flow-through Manual of Procedures, and from current best practices.

1. Coordination and preparation of the grant budget and adjustments with the business office;

2. Negotiating the grant budget with the NMPED Program Manager;
3. Maintaining files of all grant documents and distributing relevant grant documents to the business office;
4. Coordinating with local committees and the district Educational Plan for Student Success (EPSS);
5. Identifying additional resources to carry out grant project activities;
6. Providing reasonable opportunities for teachers, parents, and other interested parties to participate in the planning and operation of the grant;
7. Understanding applicable state, federal and local laws, regulations, policies and procedures, **including the PED Program Budget Questionnaire that is a part of the annual budget process and is required by PED**; (See PSAB Supplement 1, Budgeting);
8. Understanding and ensuring that appropriate inventory of equipment, supplies and materials are conducted periodically and part of the district or charter school's year-end financial procedures (See PSAB Supplement 10, Warehouse/Supply Inventory.);
9. Ensuring that all expenditures and activities are properly documented, purchase requisitions are made and approved prior to any purchase, and that business office records are compared and reconciled to program records.

## **DISTRICT OR CHARTER SCHOOL BUSINESS OFFICE RESPONSIBILITIES**

The following was adapted from the NMPED Flowthrough Procedures Manual, and from current best practices.

1. Maintaining fiduciary and financial responsibility for all grant activities including preparation of the budget and all budget adjustments through coordination with the program management;
2. Maintaining fiscal integrity of financial and financially related reports for all grants and contracts;
3. Understanding applicable state, federal and local laws, regulations, policies and procedures;
4. Ensuring charges to the grant are appropriate and have been approved by the program manager, and are within the authorized budget;
5. Processing and maintaining accounting data for the grant;
6. Maintaining the details of all grant transactions;
7. Requesting funds frequently by submitting properly completed Requests for Reimbursement;
8. Preparing and submitting any required interim, quarterly and year-end financial reports by the required due date and certifying that the expenditures are true and correct;
9. Classifying and reporting the accounting transactions properly including preparation of the District's financial statements;
10. Documenting and reporting any instances of waste, fraud or abuse of funds.



Grant accounting records should include but are not limited to the following:

- A copy of the RFP grant application, Grant Award Notice, approved budget, approved budget adjustments, Requests for Reimbursement, and quarterly and year- end **cash basis** financial reports;
- Documentation for all financial transactions and any charges to the grant;
- Payroll records (supported by individual time and effort documentation if required for split funding of the position or payroll charges);
- Initial budget and subsequent budget adjustments;
- Any payments made from grants;
- Any program income if applicable;
- Financial reports; and
- Procurement records.

All programmatic, financial and reporting personnel should have readily available access to copies of the complete information regarding the grant and the grant application.

## **ADMINISTRATIVE COSTS**

Administrative costs may be either a direct cost to the program or an indirect cost to the program.

A **direct cost** is a cost that can be identified specifically with a particular cost objective of the grant, such as a grant project, service or other activity of an organization. Typically costs for personnel who supervise the activities of the program staff, direct costs for personnel who perform fiscal and reporting activities related to the grant or costs, and/or contracted services associated with the administration of the program are charged directly to the grant (supported by time and effort documentation to the program if applicable). Additionally, costs for supplies and materials, or equipment requested for administrative use and other operating costs requested for administrative purposes may be charged directly to the grant if allowed under the terms of the grant.

An **indirect cost** is a cost that has been incurred for common, joint or multiple objectives of the district that cannot be readily identified with any one particular cost objective or district program. These costs include the operating and maintaining of shared facilities, general administration and general expenditures such as budgeting, accounting, human resources, legal and purchasing departmental costs. Centralized services such as information systems and accounting administration are also indirect costs.

## **WHAT IS AN INDIRECT COST RATE?**

An indirect cost rate is a mechanism for easily determining what proportion of a school district's shared administration costs each grant should bear. An indirect cost rate

represents the ratio between the total indirect costs and the benefiting direct costs, after excluding and or reclassifying unallowable costs, and extraordinary or distorting expenditures, (i.e., capital expenditures and major contracts and subgrants). The indirect costs in the numerator of the equation should bear a reasonable relationship to the direct costs from the denominator. This will allow for each program or activity represented in the direct costs base to assume their fair share of indirect costs when the rate is applied.

Reimbursement of indirect costs under federal guidelines is determined by the district's indirect cost rate which districts negotiate with NMPED. NMPED establishes the restricted and unrestricted indirect cost rates each year using a methodology approved by the U. S. Department of Education. The rates are effective from July 1 of the current year to June 30 of the following year. The rates are published in the Federal Flow-through Procedures Manual each year.

The district's **restricted** indirect cost rate must be used to calculate the allowable indirect costs for those federal programs requiring the use of federal funds to supplement and not supplant state and local funds. (e.g., ESEA Title I) To maintain continuity between federal and state programs, reimbursement of indirect costs under state funded awards is subject to the same rules and limitations that apply for federal programs.

The districts non-restricted indirect rate is applicable to those federally aided programs that do not have supplement/supplant provisions (e.g., National School Lunch or Breakfast Program).

### HOW ARE INDIRECT COST RATES APPLIED?

The rate determined by NMPED is applied to the direct costs incurred by the grant, less any capital expenditures and other costs stipulated as unallowable by OMB 87 or grant legislation. Thus if indirect rate is 3.42% and total expenditures of a restricted grant are \$50,000 but \$10,000 is for capital expenditures, \$40,000 of the expenditures less \$40,000 is divided by 1.0342 to calculate allowable indirect costs for the grant. These costs are estimated initially for budget purposes, but the calculation must be based on the actual costs incurred.

Direct Costs		Direct Costs /(1 + Indirect Rate)		Indirect Costs
\$ 40,000.00	less	\$ 38,677.24	equals	\$ 1,322.76

District's should estimate Indirect Costs due to the Operational Fund from the grant, and budget the funds as an expenditure in the grant budget under function **2300** and under object **53713**, Indirect Costs. (See PSAB Supplement 3, UCOA). These costs should

likewise be budgeted in the Operational account under revenue function code **0000** and the appropriate revenue code as follows:

- 43212 - Indirect Costs - State Flow-through Grants
- 43213 – Indirect Costs - State Direct Grants
- 44205 – Indirect Costs – Federal Flow-through Grants

## **INDIVIDUAL TIME AND EFFORT DOCUMENTATION**

Generally, salaries and benefits may be charged to federal programs if they are properly allocated. The specific requirements for documenting these expenditures for public schools are addressed in Office of Management and Budget Circular A-87. Requirements have been summarized for purposes of this Supplement from material published by the Flowthrough Bureau. It is important that district's and charter schools maintain appropriate documentation by cost objectives. A cost objective may be a particular grant award or other category of cost that requires the grantee to track specific cost information. Thus, a single federal program may have more than one cost objective. These cost objectives may be defined in accounting terms by the function code in the UCOA. (See PSAB Supplement 3, UCOA), and PSAB Supplement 14, Payroll.

An employee who works on a single cost objective must complete a semi-annual certification that indicates the employee worked solely on that program for the period of the certification. The certification can be simple. For example:

*I hereby certify that for the period January 1 through June 30, 2010, one-hundred percent (100%) of my time and effort was spent on Title I, Part A activities.*

In some instances the requirement for a semi-annual certification may be satisfied through payroll coding and time and attendance certification pursuant to payroll authorizations.

- The employee must be assigned to a dedicated function code;
- The employee must be coded to that function in the payroll system and cannot benefit other programs; and
- The supervisor responsible for certifying payroll cannot have the authority to assign the employee to another program or activity.

Employees working on multiple cost objectives must maintain "Personnel Activity Reports" that reflect the following:

- **After the fact record:** The PAR must be created after the work has been executed

- **Total activity:** The PAR must account for the total activity for which each employee is compensated, including part-time schedules or overtime.
- **Monthly:** The PAR must be prepared at least monthly and must coincide with one or more pay periods.
- **Signed:** The employee must sign the PAR

For example:

*I hereby certify that for the period January 1 through January 31, 2010, 50% of my time and effort was spent on IDEA and 50% on Title I, Part A.*

Other information regarding employees and payroll are detailed in PSAB Supplement 14, Payroll.

## PROCUREMENT AND SUB CONTRACTS

Grantees must maintain a procurement and contract administration system that ensures all contractors/subcontractors, including consultants, perform in accordance with the terms, conditions, and specifications of the contracts. Districts and charter schools will maintain written procurement procedures (PSAB Supplement 13, Purchasing) that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and EDGAR, Part 80, Section 36, New Mexico Procurement Code, Sections 13-1-21 to 13-1-199, NMSA 1978.

In general the grantee must:

1. maintain a copy of a signed contract/agreement/purchase order for services to be performed and the rationale/procedure for selecting a particular contractor;
2. for all contracts in excess of \$10,000, describe in the contract/agreement conditions under which the contract may be terminated, including the basis for settlement;
3. be aware that all materials, conceptions and products arising from the grant project produced or conceived by the grantee, its employees, agents, consultants, or subcontractors are the sole property of NMPED. The federal government retains a royalty free interest on all works developed with federal funds. NMPED will have the exclusive right to copyright, patent, and trademark these materials, conceptions, and products subject to applicable law. The grantee must also bind all concerned through written agreements with subcontractors;
4. not assign or subcontract any of its rights or responsibilities under the grant, except as may be otherwise provided for in this application, without prior formal written amendment of the grant properly executed by both NMPED and the grantee;
5. maintain evidence that awards were made only to contractors/consultants possessing the ability to perform successfully under the terms and conditions of

the proposed contract/procurement (i.e., consultants were selected based on demonstrated competence, qualifications, experience, and reasonableness of costs; and consideration was given to contractor integrity; compliance with public policy, record of past performance, and financial and technical resources in selecting contractors, purchases of equipment for contractor use are prohibited based upon this requirement);

6. contract only with persons not employed by the grantee;
7. not participate in the selection or award of a contract if a conflict of interest would be involved;
8. maintain records on the services performed, including the date the service was performed and the purpose of the service, and ensure that the services are consistent and satisfactory with that described in the signed contract/purchase order;
9. make payment only after the service was performed and not before (as required by state and federal law and except, in most cases, where a deposit is required for normal business practice, as in the case of utility service purchases);
10. not use or pay any consultant in the conduct of this application if the services to be rendered by any such consultant can be provided by grantee's employees;
11. ensure that funds have been expended in accordance with the grant application; and
12. ensure records are maintained which ensures that contractors and vendors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders as illustrated by a copy of a signed contract/agreement/purchase order for services to be performed and the rationale/procedure for selecting a particular contractor/vendor.

## **FEDERAL PROPERTY MANAGEMENT REQUIREMENTS**

Grant agreements frequently include budgetary authorization for the purchase of supplies and capital outlay (furniture and/or equipment) considered necessary to successfully meet the objectives of the grant program. Grantees are required to ensure that a system of controls is in place to guarantee the adequate safeguards to prevent loss, damage, or theft of the property. (See PSAB Supplement 12, Capital Assets).

Equipment is defined as tangible, nonexpendable personal property having a useful life of more than one year. School districts should have a capitalization policy in place that includes all equipment with an acquisition cost of more than \$5,000. Additionally, districts should include small, attractive items such as computer equipment including but not limited to laptops, notebooks and PDA devices that have a value less than \$5,000 but are highly susceptible to theft. Grantee districts are expected to include such items in annual inventories.

Districts are required to manage property acquired with grant funds by establishing and using procedures that meet 34 CFR, Part 80.32 including the following requirements:

- a) Maintain property records within a capital asset inventory system that includes at a minimum:
  - 1) the description of the property
  - 2) the serial number
  - 3) the source of the property
  - 4) the program or fund purchasing the asset
  - 5) the acquisition date and cost
  - 6) the percentage of federal or state participation in the cost of the property
  - 7) the location and condition of the property
  - 8) any disposition data including date and sale price of the property
- b) Conduct an annual physical inventory of grant acquired property and reconcile results with property records;
- c) Develop control system to ensure adequate safeguards are in place to prevent loss, damage or theft of the property. All capital items must be properly tagged.
- d) Maintenance procedures must be established and followed to keep the property in good condition;
- e) Procedures to sell grant-acquired property when authorized or required to ensure the highest possible return.

(Refer to PSAB Supplement 12, Capital Assets).

## **DISPOSITION OF EQUIPMENT PURCHASED WITH FEDERAL FUNDS**

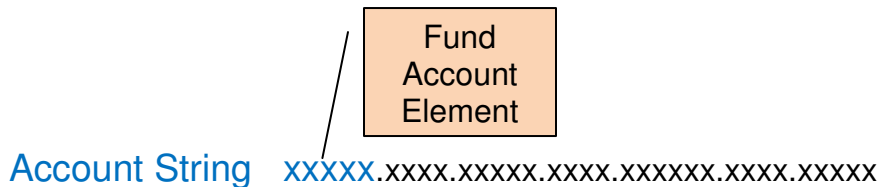
When property acquired with grant funds is no longer needed for the original purpose or for other activities currently or previously supported by NMPED or the U. S. Department of Education, these rules for disposition need to be followed. (34 CFR 80.32 and PED Flow-through Manual 2011).







- Equipment with a current per-unit fair market value of less than \$5,000 and equipment with no further use value may be retained, sold, or otherwise disposed of, with no further obligation to the federal government. NMPED reserves the right to transfer furniture or equipment to another grantee after the grant period.
- All other equipment may be retained or sold, and the federal government shall have a right to an amount calculated by multiplying the current fair market value or the proceeds from sale by the federal share of the equipment (see Section 74.142). If part of the federal share in the equipment came from an award under which the exemptions in Section 74.135 were applicable, the amount due shall be reduced pro rata. In any case, if the equipment is sold, \$100 or 10% of the total sales proceeds, whichever is greater, may be deducted and retained from the amount otherwise due for selling and handling expenses. NM PED must be notified in writing so that NMPED may transfer items to another grantee

## THE UNIFORM CHART OF ACCOUNTS

The NMPED has adopted a Uniform Chart of Accounts (UCOA) to provide an accounting and financial reporting framework to school districts and charter schools in New Mexico. Districts and charter schools in New Mexico are required to use the chart for financial reporting and are encouraged to incorporate the account structure into their financial management system. A brief overview of funds, functions, objects, program and object codes used for the budgeting, accounting and reporting of federal and state grants is presented in the following paragraphs. Details of the UCOA are contained in PSAB Supplement 3, UCOA.

**SPECIAL REVENUE FUND ACCOUNT CODES** discussed in this supplement are organized into broad categories designated by the first two digits in the five digit fund number. Funds are further identified by the remaining digits more specifically, i.e., Title I, IDEA-B, etc. Fund codes are the first element in the account string and contain a total of five digits.



-  **24000 Federal Flow-through Grants**
  - Examples : 24101, Title I and 24106, IDEA-B
-  **25000 Federal Direct Grants**
  - Example: 25153, Medicaid
-  **26000 Local Grants**
-  **27000 State Flow-through Grants**
-  **28000 State Direct Grants**
-  **29000 Combined Local/State Grants**

**FUNCTION CODES** are standardized for all funds and generally correspond to grant expenditure objectives. Function code 0000 is used with all revenue and balance sheet objectives. The following chart includes but is not limited to some of the most commonly used functions and corresponding grant objectives. Function codes are the second element in the account string and contain a total of four digits.



Function  
Code  
Element

Account String    xxxxx.xxxx.xxxxx.xxxx.xxxxxx.xxxx.xxxx

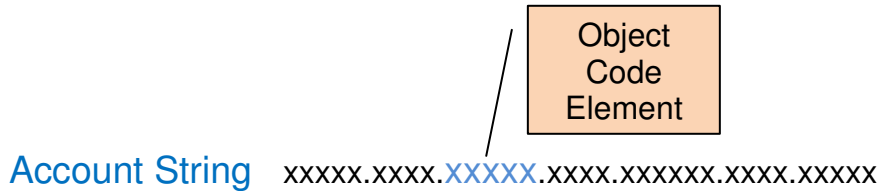
Correlation Between Accounting Functions and Grant Objectives		
Function	Description	Corresponding Grant Objective
1000	<b>Direct Instruction</b> - May include salaries and benefits for teachers and other classroom personnel or classroom supplies and equipment.	<b>Objective One</b> -May include salaries and benefits for teachers and other classroom personnel, or classroom supplies and equipment needed to support the objective.
2100 & 2200	<b>Support Services</b> - May include salaries and benefits for ancillary support personnel such as Speech Therapists, nurses, library aides or librarians and or contractors providing support services to students.	<b>Objective Two</b> - May include salaries and benefits for ancillary support personnel such as Speech Therapists, nurses, library aides or librarians and or contractors providing support services to students in accordance with the grant objective.
2300	<b>Support Services - General Administration</b> , I e., Central Office administration salaries and benefits, legal fees, supplies and materials for administration.	<b>Objective Three</b> - Most often used for recording Indirect costs allocable to Operational Central Office Administration, but may be used for grant administration salaries and benefits, legal fees, supplies and materials for administration in accordance with the grant objectives.

## OBJECT CODES

Object Codes are summarized by the type of account. Balance sheet accounts which include Assets, Liabilities and Fund Balance or Equity accounts are designated by the first digit of each number. To review the entire list of subaccounts in this category,



please see PSAB Supplement 3, UCOA or go to the PED web page, School Budget and Finance Analysis Bureau and open the UCOA link for valid account number code elements and strings. Object codes are the third element in the account string and contain five digits.



### **Balance Sheet Account Codes**

- 1xxxx indicates an asset account such as Cash (begins with “11”), Investments (begins with “12”), or Accounts Receivable (begins with “13”).
- 2xxxx indicates a liability account such as Accounts Payable (begins with “21”), or Due to Other Funds (begins with “24”). Loans Payable to other funds are recorded under 24100.
- 3xxxx indicates a Fund Balance or equity account. Normally, transactions posted to these accounts are as the result of year-end closing adjustments made by the district or charter school’s financial management system.

### **Revenue Account Object Codes**

Revenue object codes begin with a “4” as the first digit. These codes are further defined as to revenue source by the second digit, such as “1” for local sources such as taxes and interest, “3” for state sources such as restricted and unrestricted state grants, “4” for revenue from federal sources, “5” for other financing sources such as disposal of property, and “6” for other items.

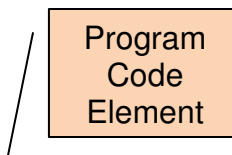
### **Expenditure Account Object Codes**

Expenditures object codes follow a similar format with all expenditures codes beginning with a “5”. The codes are further defined by expenditure type such as “1”, Salaries, “2”, Benefits, “3” Purchased Professional and Technical services”, “4” Purchased Property Services, “5” Other Purchased services, “6” supplies, “7” Property, and “8” debt service as the second digit.

### **PROGRAM CODES**

A program is a plan of activities and procedures designed to accomplish a predetermined objective. The program code classification provides districts and charter schools with a framework to classify instructional and support services by program.

Program codes are only used with functions 1000 and to a limited degree, function 2100. A placeholder of 0000 is used for the program code in all other functions. The Program code is important to federal programs because program code 2000 is used to denote special education programs.



**Account String**    xxxxx.xxxx.xxxxx.**XXXX**.xxxxxx.xxxx.xxxxx

## LOCATION CODES

The next element is a **location code** element for districts to report their combined three digit district number and the applicable three digit school number as assigned by PED and used for ADA reporting. The use of the school code is optional, but is a useful field in coordinating a comprehensive system that includes other district reporting systems in addition to the Financial Management System.

## JOB CLASS CODES

Job codes are a four digit element used exclusively with object codes in the 51000 series for salaries. This is a required element for any account string containing an object code beginning with "51".

*Note: Any "Stipends" paid must be budgeted to the proper salary and job code and any applicable benefits calculated to the corresponding 52000 object code. There is no separate account code for stipends.*

## OTHER ELEMENTS

Districts and Charter schools may design other elements not to exceed 10 additional digits in total. These elements may provide for allocations or project tracking.

## PROJECT CODES

Many grants require additional record keeping to facilitate analysis of spending in relation to program objectives and the district's EPSS goals. Districts are encouraged to use other tools within the Financial Management System's accounts payable module for this purpose.

## THE FINANCIAL MANAGEMENT SYSTEM AND FLOW-THROUGH GRANTS

The accounting for federal and state grants requires an understanding of the grant years and the revenue flow for each grant. While the revenue flow should be transparent to the districts, it is important that the districts understand the process and are able to communicate with the NMPED Flow-through Bureau that administers the grant funds. It is possible to be receiving funds under one fund for several different grant years.

It is important that districts and charter schools budget the amount remaining in any prior year grants plus any new grants each fiscal year. Districts must wait for “Carry Over” letters from NMPED before budgeting these amounts. Unlike other funds budgeted by the district, only the carryover grant amount is budgeted. The cash balances (or cash balances due, since the funds are generally on a reimbursement basis) cannot be budgeted as they are already included in the grant carry over. It is important to note that actual revenue posted in the Financial Management System may exceed the budgeted amounts, as **cash basis** accounting requires posting revenues in the year received. This inconsistency is corrected on the district’s accrual financial statements. (PSAB Supplement 5, Financial Statements)

Districts must develop a logical method to track the funding activity over the course of several fiscal years for each Flow-through grant and to assist district personnel in determining the availability of budget carry over for year to year. (See Example below).

Sample Grant Tracking and Reimbursement Chart								
	Grant Amount	Grant	District Expenditures			Fiscal	PED	Fiscal
		Carryover	Fiscal 1	Fiscal 2	Fiscal 3	Budget	Reimbursements	Cash Balance
Grant year 1	\$ 56,000.00					\$ 56,000.00		
			\$ 35,000.00				\$ 32,000.00	\$ (3,000.00)
							\$ 24,000.00	
Grant year 2	\$ 53,000.00					\$ 74,000.00		
		\$ 21,000.00	←	\$ 21,000.00	→			
				\$ 40,000.00			\$ 36,000.00	\$ (4,000.00)
Grant year 3	\$ 62,000.00					\$ 75,000.00		
		\$ 13,000.00	←		\$ 13,000.00		\$ 17,000.00	
					\$ 50,000.00		\$ 25,000.00	(25,000.00)
Totals	\$ 171,000.00		\$ 35,000.00	\$ 61,000.00	\$ 63,000.00		\$ 134,000.00	
			Total Expenditures	\$ 159,000.00		Grant Balance plus Reimbursement	\$ 37,000.00	
			Grant CO Balance	\$ 12,000.00		Reimbursements due	\$ 25,000.00	

Districts may find it advantageous to include additional information regarding the grant through use of a project code or modification of the official revenue account code (4450"1", 4450"2", etc. indicating the grant year for revenues recorded in the current year. These numbers would need to be rolled up to 44500 for reporting purposes.

Estimated base  
year's Revenues  
& Expenditures

Cash Carryover  
(Including  
negative cash)  
not allowed for  
budgeting in  
Flow-through  
funds

ABC School District				
Account Number	Description	Budget	Est FY08-09	PROJ FY09-10
24106-90-11011	Entitlement IDEA B -CASH WFB		16,010.91	
24106-00-44500	Entitlement IDEA B -PED Federal Flowthrough Grants	(3,009,321.00)	(2,049,088.48)	(3,186,455.00)
<b>Total Revenues</b>	<b>Subtotal Function 0000</b>	<b>(3,009,321.00)</b>	<b>(2,033,077.57)</b>	<b>(3,186,455.00)</b>
24106-10-51100	Entitlement IDEA B -Salaries Expense	125,197.00	111,492.24	133,189.00
24106-10-52111	Entitlement IDEA B -Educational Retirement	32,420.00	22,299.96	38,491.00
24106-10-52112	Entitlement IDEA B -ERA - Retiree Health	2,833.00	2,615.70	3,015.00
24106-10-52210	Entitlement IDEA B -FICA Payments	12,534.00	11,486.89	13,336.00
24106-10-52220	Entitlement IDEA B -Medicare Payments	2,847.00	2,687.03	3,030.00
24106-10-52311	Entitlement IDEA B -Health and Medical Premiums	39,365.00	25,041.16	41,878.00
24106-10-52312	Entitlement IDEA B -Life	354.00	259.39	377.00
24106-10-52313	Entitlement IDEA B -Dental	2,710.00	1,397.28	2,883.00
24106-10-52314	Entitlement IDEA B -Vision	488.00	304.73	520.00
24106-10-52315	Entitlement IDEA B -Disability	395.00	265.31	421.00
24106-10-52500	Entitlement IDEA B -Unemployment Insurance Premium	240.00	101.43	256.00
24106-10-52710	Entitlement IDEA B -Worker's Compensation Premium	1,793.00	1,700.00	1,908.00
24106-10-52720	Entitlement IDEA B -Worker's Compensation Employers	81.00	34.49	87.00
24106-10-53330	Entitlement IDEA B -Professional Development	228,236.00	165,375.25	250,000.00
24106-10-55817	Entitlement IDEA B -Student Travel	12,402.00	8,459.90	13,194.00
24106-10-55819	Entitlement IDEA B -Employee Travel - Teachers	29,674.00	14,763.01	31,569.00
24106-10-55915	Entitlement IDEA B -Other Contract Services	38,822.00	38,057.00	50,000.00
24106-10-56118	Entitlement IDEA B -General Supplies and Materials	118,212.00	105,931.92	125,000.00
24106-10-57332	Entitlement IDEA B -Supply Assets (5,000 Or Less)	301,557.00	259,440.19	350,000.00
	<b>Subtotal Function 1000</b>	<b>950,160.00</b>	<b>771,712.88</b>	<b>1,059,154.00</b>
24106-21-51100	Entitlement IDEA B -Salaries Expense	732,798.00	732,676.17	779,573.00
24106-21-51300	Entitlement IDEA B -Additional Compensation	85,892.00	65,291.71	91,376.00
24106-21-52111	Entitlement IDEA B -Educational Retirement	101,106.00	93,549.62	107,561.00
24106-21-52112	Entitlement IDEA B -ERA - Retiree Health	13,555.00	10,329.53	16,421.00
24106-21-52210	Entitlement IDEA B -FICA Payments	53,846.00	46,319.29	57,284.00
24106-21-52220	Entitlement IDEA B -Medicare Payments	13,232.00	10,832.69	14,077.00
24106-21-52311	Entitlement IDEA B -Health and Medical Premiums	108,947.00	94,816.10	120,464.00
24106-21-52312	Entitlement IDEA B -Life	1,827.00	1,541.68	1,944.00
24106-21-52313	Entitlement IDEA B -Dental	6,723.00	5,291.00	7,153.00
24106-21-52314	Entitlement IDEA B -Vision	1,509.00	1,088.90	1,606.00
24106-21-52315	Entitlement IDEA B -Disability	1,907.00	1,334.29	2,029.00
24106-21-52500	Entitlement IDEA B -Unemployment Insurance Premium	1,054.00	547.58	1,122.00
24106-21-52710	Entitlement IDEA B -Worker's Compensation Premium	13,815.00	8,537.00	14,697.00
24106-21-52720	Entitlement IDEA B -Worker's Compensation Employers	423.00	211.52	451.00
24106-21-53211	Entitlement IDEA B -Diagnosticians - Contracted	13,850.00	13,600.00	30,000.00
24106-21-53213	Entitlement IDEA B -Occupational Therapists - Contracted	55,953.00	7,120.90	60,000.00
24106-21-53214	Entitlement IDEA B -Therapists - Contracted	157,414.00	42,036.20	150,000.00
24106-21-53330	Entitlement IDEA B -Professional Development	72,604.00	17,497.56	80,000.00
24106-21-54311	Entitlement IDEA B -Maintenance & Repair Furniture/	4,037.00	834.93	8,000.00
24106-21-54620	Entitlement IDEA B -Rental of Equipment and Vehicles	10,000.00	6,987.03	12,000.00
24106-21-55813	Entitlement IDEA B -Employee Travel - Non-Teachers	35,000.00	22,578.47	35,000.00
24106-21-55915	Entitlement IDEA B -Other Contract Services	85,000.00	47,946.21	77,300.00
24106-21-56113	Entitlement IDEA B -Software	29,234.00	17,556.84	31,100.00
24106-21-56118	Entitlement IDEA B -General Supplies and Materials	141,000.00	95,780.69	143,660.00
24106-21-57332	Entitlement IDEA B -Supply Assets (5,000 Or Less)	260,000.00	109,513.29	222,317.00
	<b>Subtotal Function 2100</b>	<b>2,000,726.00</b>	<b>1,453,819.20</b>	<b>2,065,135.00</b>
24106-23-53713	Entitlement IDEA B -Indirect Costs	58,435.00	58,435.00	62,166.00
	<b>Subtotal Function 2300</b>	<b>58,435.00</b>	<b>58,435.00</b>	<b>62,166.00</b>
<b>Total Expenditures</b>		<b>3,009,321.00</b>	<b>2,283,967.08</b>	<b>3,186,455.00</b>
<b>Calculated Cash Carryover</b>		<b>-</b>	<b>250,889.51</b>	<b>-</b>

Projected  
Expenditures  
Equal  
Projected  
Revenues  
A Balanced  
Budget for  
2009-2010

Calculated total for carryover of "unrestricted cash" projected for the following year's actual. Amount is not budgeted in Flow-through grants.  
Estimated Revenues minus Estimated Expenditures

## FLOWTHROUGH REIMBURSEMENTS

Districts and charter schools need to establish budgetary authority prior to the expenditure of funds.

**Budgetary authority** is obtained by submitting an initial budget that is approved by the school board or governing authority and PED prior to June 20 of each year. These budgets may only be submitted as initial budgets if the estimated allocation for the year has been received by the district from PED. While these amounts are generally available for Title I and IDEA-B, they may not be available for other funds until a later date. A Budget Adjustment Request (BAR) supported by documentation including a copy of the Award letter or carryover memo) will have to be submitted to enter budgets for these funds. (See PSAB Supplement 1, Budget Planning, Preparation and Maintenance).

As soon as expenditures begin accumulating, districts need to establish a frequency for submitting Requests for Reimbursement (RfRs) through PED's Operating and Budget Management System (OBMS). In order to minimize loans needed from the Operational fund, it is suggested that districts submit requests as often as is allowed to minimize the amount required from loans. Districts will need to obtain the list of grants not serviced by the RfR system from the PED Flowthrough Bureau's website. If the fund is distributed in advance, districts or charter schools need to submit a paper transfer request..

The RfR must have a Financial Management System (FMS) generated expenditure report for the range of expenditures requested in the RfR as an attached document. The expenditure should have at a minimum the following fields:

- Initial Budget
- Budget Adjustments
- Budget Balance
- Expenditures in Ranged Requested ( Example: September 1 through September 30)
- Expenditures Year to Date
- Encumbrances
- Unexpended and Unencumbered Budget Remaining
- Percent of Unexpended and Unencumbered Budget Remaining

The total amount of the request must match the expenditure report. All required fields must have an entry and the RfR must be submitted by the business manager of record and holding a valid OBMS identification. Periodically a district will be randomly selected to submit a detailed expenditure report which contains additional information such as the check number, date, voucher number and amount of each disbursement made for the date range of expenditures from the grant. Detailed payroll information may also be requested.

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Other information for the Request for Reimbursement includes:

1. Year to Date Expenditures including any abatements received to date;
2. Outstanding Claims requested but not yet received (to be generated by OBMS);
3. Cash received by the district for the fiscal year to date (to be generated by OBMS); and
4. Year-end Cash balance at 6/30/20xx excluding any loan which must match the audit cash report included in the Required Supplementary Information (RSI) to the audit. As these grants are on a reimbursement basis, the cash balance should be negative. (See PSAB Supplement 6, Financial and Compliance Audit).

District chartered Charter Schools will submit a completed RfR to the sponsoring district for review, approval and submission to PED. The sponsoring district will immediately transfer any funds received from PED on behalf of the charter's RfR to the Charter School, either by wire transfer or check.

## **FEDERAL DIRECT GRANTS**

Unlike other budgets in the school district, the budgets of some federal direct grants are **not** based on preset cash to be obtained through a formula or grant, but rather may be earned by delivery of services and/or district matches from other district funds. There are few items in these budgets that have a "cap" on the amount of expenditures required. For example, costs are directly related to the services provided. If there is a need for increased services, then cost services provided is increased. Conversely, if services decrease, expenditures to produce these services should decrease. An example of this type of grant is Medicaid (25153). Therefore, these grants required frequent monitoring and adjustments to both the budget and to expenditure levels. The budgets of these funds generally allow carryover cash to be budgeted along with reasonable estimates for revenues and expenditures.

As the funds for these grants do not flow through the NMPED, these grants require a separate billing or reimbursement process as stipulated in the grant through other sponsoring state agencies or the federal government. Reporting requirements are also specified by each particular direct grant.

## **APPROPRIATENESS OF EXPENDITURES**

Districts must have policies and procedures in place to analyze and approve expenditures based not only on use of proper account coding, but also on the appropriateness of the expenditure to achieve the objectives of the grant and its

allowability under the terms of the grant and state regulations relating to expenditures and the elimination of waste, fraud and abuse.

## **RISK ASSESSMENT**

A Risk Assessment tool to examine Accounting Practices and Procedures applicable to the Federal and State grants is included in the Tips, Tools and Resources section of this manual.

Reference PSAB Supplement 3, Uniform Chart of Accounts, for complete object code definitions and usage.

The Flow-through Bureau of the Public Education Department issues a Flowthrough Procedures Manual annually that contains specific instructions on general procedures, eligible entities-general budget procedures, OBMS reimbursement requirements, policies and required forms, etc. This Manual is considered the primary resource document to manage these programs and is included and updated annually as a part of this supplement.

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***This Flowthrough Procedures Manual shall be inserted into the Manual of Procedures for Accounting and Budgeting, Supplement 4, and replaced annually by school personnel. Website is [ped.state.nm.us](http://ped.state.nm.us)***

## REFERENCE MATERIAL

Federal Register (regulations and notice of all federal agencies)

- The Federal Register may be obtained from the Superintendent of Documents, U.S. Printing Office, Washington, DC 20402.

Federal Register Digest (only regulations and notices of those federal agencies affecting education)

- Obtained from the Educational Digest Service, Inc., L'Enfant Station, P.O. Box 23326, Washington, DC 20026.

Federal Grants Management Handbook

- Obtained from the Grants Management Advisory Service, 2120 Second Street NW - Suite 210, Washington, DC 20037.

Federal Programs Technical Assistance Manual

- Obtained from the Public Education Department, Internal Audit Unit, Federal Building, Santa Fe, NM 87501-2786.

Manual of Procedures for Public School Accounting and Budgeting

- Obtained from the Public Education Department, School Budget Planning and Analysis Bureau, Education Building, Santa Fe, New Mexico 87501-2786,



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