

Financial Management Requirements and Statutory Authority for Monitoring

Financial Management Systems

Compliance with Federal Financial Management Standards (All Grantees)

Pursuant to federal guidelines specified in the Education Department General Administrative Regulations (EDGAR), specifically Title 34 of the Code of Federal Regulations (CFR) §§80.20 and 74.21, all grantees must have a financial management system that meets certain federal financial management standards. This requirement is specified in each grant application package published by the Texas Education Agency (TEA) in Part 1: General and Fiscal Guidelines, "Coordination with the Applicant's Business/Accounting Office and Financial Management," as well as in the general provisions and assurances that accompany each grant application.

Specifically, grantees must have, in accordance with 34 CFR §§80.20 and 74.21, fiscal control and accounting procedures sufficient to:

- (1) Permit preparation of reports required by these requirements and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The financial management systems of grantees must meet the following standards:

- (1) ***Financial reporting.*** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.
- (2) ***Accounting records.*** Grantees must maintain records that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) ***Internal control.*** Effective control and accountability must be maintained for all grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) ***Budget control.*** Actual expenditures or outlays must be compared with budgeted amounts for each grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant agreement. If unit cost data are

required, estimates based on available documentation will be accepted whenever possible.

- (5) **Allowable cost.** Applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- (7) **Cash management.** Procedures for minimizing the time elapsing between the transfer of funds from TEA and disbursement by grantees must be followed. The grantee must make draw downs as close as possible to the time of making disbursements.

Compliance with TEA's Financial Accounting and Reporting (FAR) Guide

Additionally, independent school districts (ISDs), education service centers (ESCs), and open-enrollment charter schools must maintain records in accordance with the provisions of the *Financial Accountability System Resource Guide* (FASRG). The *Financial Accounting and Reporting* (FAR) guide, which is Module 1 of FASRG, establishes the requirements for proper budgeting, financial accounting, and reporting systems. FAR is structured to comply with federal financial management standards requiring that grant funds be accounted for according to a fund code structure.

ISDs, ESCs, and open-enrollment charter schools are required to maintain an accounting system that includes a minimum 15-digit fund code structure that permits grantees to report budget, encumbrances, and expenditures in their general ledger in accordance with FAR. Of this 15-digit fund code, three of the digits identify the source of funds (i.e., the grant program) and four of the digits constitute an object code that identifies the category of expenditure (see FAR, Section 1.4, Account Codes, Exhibit 29, Account Code Structure). A general ledger that uses the 15-digit fund code structure appropriately documents the use of funds and demonstrates compliance with federal financial management standards. It also helps TEA determine the allowability of costs for a particular grant program.

Compliance with Generally Accepted Accounting Principles (GAAP)

All organizations are required to account for expenditures in accordance with generally accepted accounting principles (GAAP). GAAP provides the methods by which an organization may consistently account for its expenditures and ensure that information presented in financial statements is reliable and verifiable by an independent party.

The FAR code structure is established to accommodate compliance with GAAP, which reflects federal financial accounting standards. All Texas nonprofit corporations are also required to account for the expenditure of funds in accordance with GAAP, pursuant to

the provisions in the Texas Nonprofit Corporation Act (Vernon's Texas Civil Statutes, Article 1396-2.23A).

Federal Monitoring Requirement

OMB Circular A-133, Subpart D, §____.400(D)(3) and 34 CFR §80.40(a) require that TEA monitor the activities of local educational agencies (LEAs) and other grantees to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and to ensure that performance goals are achieved. Similarly, pursuant to 34 CFR §76.770, TEA is required to perform administrative responsibilities to ensure compliance with applicable statutes and regulations.

TEC Statutory Authority

Pursuant to §7.021(b)(1) of the Texas Education Code (TEC), in conjunction with §§7.028(a)(1) and 7.028(a)(2), TEA is authorized to monitor programs to ensure compliance with federal law and regulations and financial accountability, including compliance with grant requirements. Additionally, §44.008(e) of the TEC grants the commissioner of Education access to all vouchers, receipts, district fiscal and financial records, and other school records as the commissioner considers necessary and appropriate.