ARRA Grant

Division of Financial Audits

Special Monitoring Unit Section

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Presentation Agenda

- Federal Requirements
- Financial Accounting System
- Financial Account Code Requirements
- Budgets
- ARRA Reporting Requirements
- Expenditures of Infrastructure Projects
- Questions to consider before you spend
- Common Audit Findings

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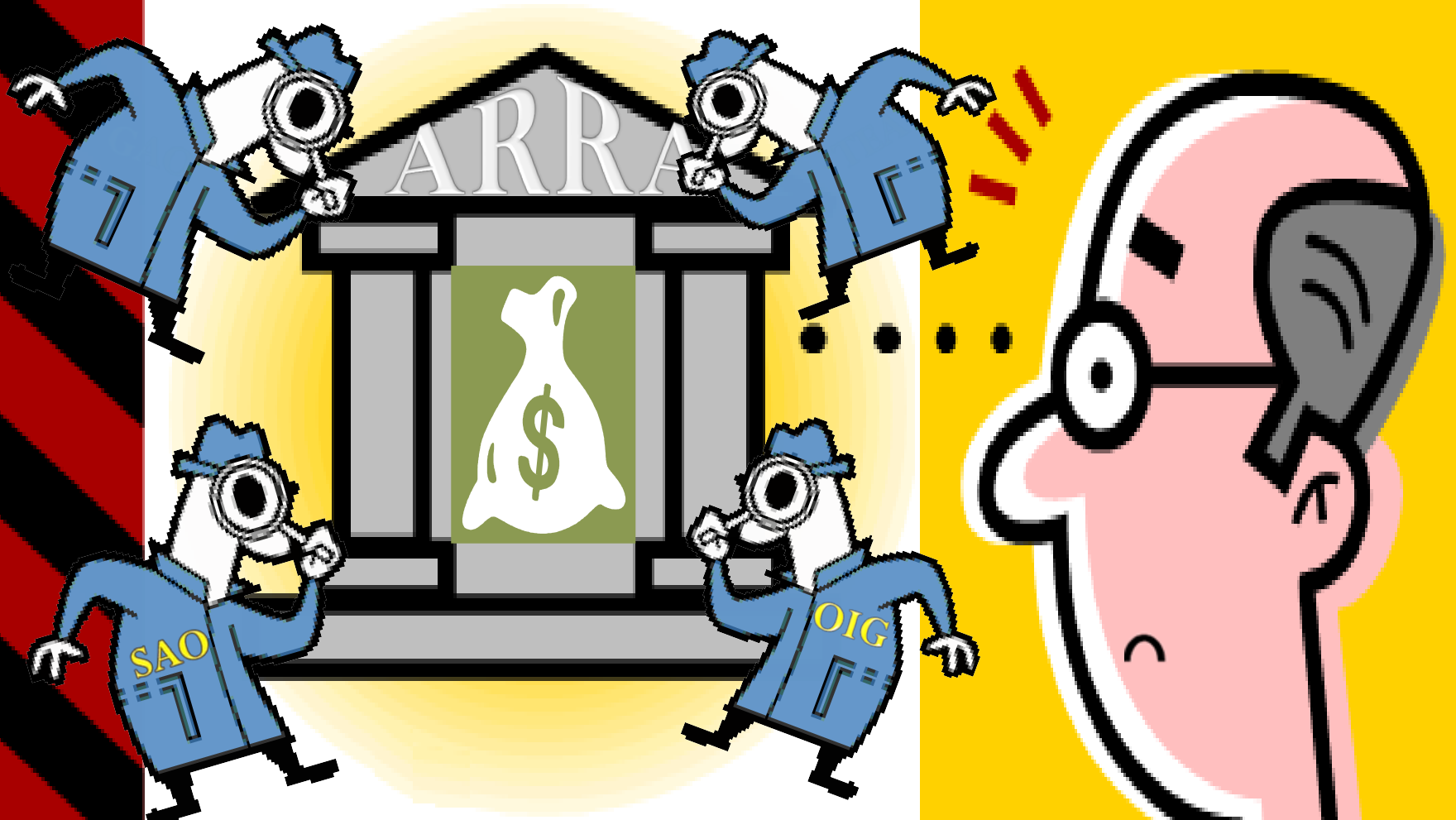
Is Your School District in Compliance with ARRA Funds?



Is Your School District in Compliance with ARRA Funds?

Federal Requirements

Regulations

- 34 CFR 80 (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.)
- 34 CFR 74 (Administration of grants and agreement with institutions of higher education, hospital, and other non-profit organizations.)
- OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments) 2 CFR 225, Appendix B, 8.h.

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Federal Requirements

Regulations

- **OMB A-122** (Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.) 2 CFR 230, Appendix B, 8.m. (OMB A-122)
- **OMB Circular A-133** (Audits of States, Local Governments, and Non-Profit Organizations)

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Federal Requirements

American Recovery and Reinvestment Act of 2009 (Recovery Act) cont.

- **Section 14003 : LEAs shall not use SFSF for payments of**
  - maintenance costs;
  - stadiums or other Athletic facilities;
  - purchase or upgrade of vehicles;
  - or improvement of stand-alone facilities **whose purpose is not the education** of children, including central office administration or operations or logistical support facilities LEA

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Federal Requirements

American Recovery and Reinvestment Act of 2009 (Recovery Act)

- **Section 1512:** Quarterly Reporting Requirements for ARRA.
- **Section 1511:** Certification Requirements for Infrastructure Investment Projects
- **Section 1605 :** Compliance With Buy American Provisions of ARRA.
- **Section 1606:** Compliance with the Davis-Bacon Act provisions of ARRA.

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Federal Requirements

Statues

- Program Statutes
  - NCLB P.L. 107-110
  - IDEA P.L. 108-446
  - Perkins Career and Technical Education Act
  - Public Law No. 111-226 (Act) Ed Jobs Program

Guidance

- Non-regulatory Guidance
- Application Guidance

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Financial Accounting System

Locally developed and approved general accounting and administrative policies and procedures describing the following:

- Preparation, review, approval and submission of expenditure report for federal awards.
- Implementation and use of required account code structure and authorized account codes.
- Expenditures of professional and contracted services.

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Financial Accounting System

Administrative policies and procedures (cont.)

- Expenditures of supplies and materials.
- Expenditures grant funds though petty cash. (if applicable)
- Expenditures of travel costs.
- Reimbursement of expenses from grant funds.
- Expenditure of Grant funds through corporate accounts, credit cards and/or revolving line of credit.

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Financial Accounting System

Administrative policies and procedures (cont.)

- The process used to develop and amend budget.
- Description of segregation of duties for cash management functions (check signing, reconciliations of bank statements etc.)
- Tracking inventory of equipment purchased with grant funds.
- Time and effort reporting requirement pursuant to OMB A-87.

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Financial Accounting System

- Administrative, including accounting, procedures
  - Processes and standardized forms to be used must **comply with board policies and local, state and federal legal requirements**
- Accounting software
  - Capture and **retain financial data in required form**
  - Generate **financial reports** including detailed general ledger, payroll journals and check registers etc.

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Financial Account Code Requirements

- Utilize the account codes permitted in the **FASRG**.
- Utilize **local option codes** that conformed to the FASRG.
- Use proper **net asset** codes assigned to ARRA grants

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Shared Service Arrangements

- It is critical that **fiscal agent and member districts agree on the model(s)** referenced in the FASRG to be followed in the shared service arrangement so that each district makes the accounting entries appropriate to the model(s) being followed.
- The **fiscal agent must ensure** that the **data** collected from member districts, for reporting, is **adequately supported**.

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What About The Budget?

Budgets should be linked to plans

- **Remember**
  - Not about expenditures
  - About activities
- **Use your budget as a bridge between your activities (the plan) and your expenditures.**
  - Create an automatic audit trail by linking strategies/activities to budget

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ARRA Quarterly Reporting

The required data elements that are not captured for a subrecipient and must be separately reported are:

- number of jobs created/retained
- description of jobs created/retained
- amount of ARRA funds expended on infrastructure investments
- description of infrastructure investments and
- vendors receiving payments of $25,000 or more.

http://ritter.tea.state.tx.us/edex/docs/1512QuarterlyReportingv3.pdf

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ARRA Quarterly Reporting

- Calculation of jobs created and retained is now **quarterly** rather than cumulatively
- A job created is a **new position** created and filled, or an existing unfilled position that is filled, that is **funded by the Recovery Act**;
- A job retained is an existing position that is now **funded by the Recovery Act**.
- Wages or salaries are either paid for or will be reimbursed with **Recovery Act funding**.

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ARRA Quarterly Reporting

FTE -Jobs Created/Retained

- The estimate of the number of jobs required by the Recovery Act should be expressed as FTEs, which is **calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule**, as defined by the recipient.

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ARRA Quarterly Reporting

FTE -Jobs Created/Retained

- In calculating the cumulative FTE for each quarter, **the denominator must include the total number of hours that would have been worked in a full-time schedule during the applicable quarter**.

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Expenditures of Infrastructure Investment Projects with ARRA

Compliance with the Davis-Bacon Act

- Applicable for Infrastructure investment project in excess of $2,000
- Requirement
  - Contracts must include language that acknowledges that all **contractors or subcontractors must pay laborers and mechanics employed under the contract no less than locally prevailing wages** for corresponding work on similar projects in the area. The U. S. Department of Labor determines locally prevailing Wage rates.
  - Contract clauses
    - Stipulation that contractor comply
    - Filing requirements/certification
    - Maintain Documentation

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Expenditures of Infrastructure Investment Projects with ARRA

Section 1605 of ARRA: Buy American ACT

- Applicable regardless of amount expended
- Requirement
  - **None** of the funds appropriated or otherwise made available by this Act may be used for the **construction, alteration, maintenance or repair of a public building** or public work unless **all iron, steel and manufactured goods used in the project are produced in the United States**.
  - **Need to demonstrate consideration of this provision**.
    - Contract clauses
      - Stipulation that contractor comply
      - Filing requirement
      - Maintain Documentations/certification

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Expenditures of Infrastructure Investment Projects with ARRA

Section 1511: Infrastructure Certification Requirements

- Post the form on the subrecipient's Web site along with a link to Recovery.gov. with the required data. http://ritter.tea.state.tx.us/edex/docs/ARRAReporting/1511InfrastructureCertv2.pdf
- Enter TEA's Expenditure Reporting (ER) system and report that the certification form has been completed and posted on the LEA's (or ESC's) Web site.
- **Before LEAs receive (draw down) infrastructure investment funds made available through ARRA, the Section 1511 certification must be completed, posted to the LEA's (or ESC's) Web 4 , and reported to TEA in ER.**

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Questions to Consider

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

- Intended Program Beneficiaries
- Intent and Purpose

Does the program, activity or strategy address a need previously identified in the **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
- Analyzes the whole picture
- Driving force of the program

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Questions to Consider

Is the cost allowable as per the OMB Circular A-87 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.

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Questions to Consider

Is the cost allowable as per the OMB Circular A-87 cost principles?

Costs must be **reasonable and necessary** to a particular grant award in accordance with relative benefits received.

- 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.

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Questions to Consider

Did your records comply with the Federal Fiscal Regulations in 34 CFR 80?

§80.20 – 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 Controls
  - Emphasis **on effective control over all grant and subgrant cash**, real and personal property, and other assets

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Questions to Consider

- Budget control
  - Emphasis on **accurate, current, and complete disclosure**
- 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

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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

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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)

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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:

Expenditure Type	Date of Obligation
Acquisition of Property	Date of binding written commitment
Personal Services by Employee	When services are performed
Personal Services by Contractor	Date of binding written commitment
Travel	Actual dates of travel
Utility Services	When the services are received.
Rental or lease of property	When the property is actually used or occupied.

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Questions to Consider

Supplement vs. Supplant Rules

Presume supplanting occurred if federal fund were used to provide services that:

- Were required to be made available under other federal, state, or local laws.
- Were provided to participating students, if those same services were provided with non-federal funds to non-participating students.
- The subrecipient conducted the activity in the prior year with non-Federal funds.
- Minor changes in duties.

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Supporting Documents

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

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Supporting Documents

Records (cont.)

- Original third-party itemized invoices/receipts
- Contracts, including amendments
- Bank statements
- Grant Application and amendments
- Inventory of assets and equipment purchased with ARRA
- Bidding records for purchases.
- Methodology used to calculate FTEs reported
- Working papers used to collect and compile data for quarterly reports (section 1512 of ARRA)

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Supporting Documents

Records (cont.)

- Personnel Records
  - Qualified trained staff
  - Payroll journals
  - Time and Effort Documentation
  - Signed and Dated Job Description
  - Contracts/Salary Authorizations

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Now, let's take a moment to see what auditors have found.

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Common Findings

Written Policies and Procedures : compliance with CFR 80.20

- Local policies and procedures did not address the following.
  - Preparation, review, approval and submission of **expenditure reports** for federal awards.
  - the process that subrecipient personnel are required to follow for the expenditure of grant funds through **corporate accounts and/or revolving lines of credit.**
  - The process that subrecipient personnel are required to follow for the expenditure of **grant funds for travel costs**.

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Common Findings

Policies and Procedures cont.

- The process subrecipient personnel were required to follow for the expenditure of grant funds for the **reimbursement of expenses incurred by an employee.**
- The process that subrecipient personnel were required to follow for the expenditure of grant funds for **real or personal property**.
- The process used to **develop and amend the budget**.
- Written policies and procedures that require the **retention of grant records**.

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Common Findings

Budgets: Compliance with 34 CFR 80 (4)

- The subrecipient did not maintain a financial accounting system that **enables it to compare budgeted amounts for each grant to actual expenditures** incurred and outlays of grant.
- The subrecipient's accounting records (i.e., detailed general ledger) **did not indicate that the subrecipient utilized encumbrances for its purchase orders and other obligations**.
- The subrecipient **expended grant funds from a budget category that was not approved in the grant application** as amended

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Common Findings

Budgets: Compliance with 34 CFR 80 (4)

- The budget, as amended and documented in the detailed general ledger, **did not agree to the budget approved** by the TEA. Auditors noted variance of % between them.
- The subrecipient **did not provide working papers utilized to prepare budgets** submitted to the TEA for approval in the grant application as amended.
- The total number of positions recorded on the **payroll journal did not agree** to the total number of positions approved in the **budget approved by the TEA**.

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Common Findings (cont.)

Expenditures of Grant Funds : Compliance with CFR 80.20 (b)(5)(6)

- The subrecipient **failed to maintain adequate and sufficient source documentation** to support the expenditures charged to the grants and reported to TEA as the basis for its reimbursement from the applicable grant program.
- The subrecipient did not maintain adequate **documentation to support the payroll costs** charged to the grant (extra duty pay agreements, time sheets, etc).
- The subrecipient obligated grant funds **outside of the grant period** that was not approved as a pre-award cost in the grant application as amended. {34 CFR 80.22}.

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Common Findings (cont.)

Expenditures of Grant Funds :Compliance with Grant

- The subrecipient did not maintain documentation demonstrating that personnel paid from grant funds **met the applicable grant requirements.**

- The expenditures charged to the grant did not align with the objectives **outlined in the campus/district improvement plan.**

- The subrecipient expended grant funds for **activities not allowed by the grant program**

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Common Findings (cont.)

Compliance with OMB Circular A-87

- The subrecipient **failed to develop and implement comprehensive administrative procedures** that identified the processes and forms that would ensure compliance with federal requirements promulgated **in OMB Circular A-87 Cost Principles** for State, Local, and Indian Tribal Governments.
- The subrecipient **did not maintain adequate time and effort** documentation (periodic certification/or activities reports) to support the payroll costs charged to the grant.
- The subrecipient **did not provide a cost allocation plan demonstrating how a portion of total costs was allocated to the ARRA grant**.

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Common Findings (cont.)

Reporting Requirements: Compliance with Section 1512 of ARRA

- The subrecipient did not demonstrate that it complied with the **reporting requirements promulgated in Section 1512** of the ARRA due to following.
  - Did not maintain **documentation supporting the FTEs** reported in the quarterly report.
  - Did not include vendors **with payments exceeding $25,000** in the quarterly reports filed.
  - The subrecipient reported expenditures of payroll costs from the grant. However, the subrecipient **did not report any FTE**s for the grant in the quarterly report.
  - Paid grant funds for supplemental pay including **extra duty/substitute pay** but did not account for them in the calculation of FTEs reported.

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Common Findings (cont.)

Infrastructure Investment Project Requirements: Compliance with section 14003, 1511, 1605, 1604 of ARRA

- Auditors examined the documentation in reference to subrecipient's infrastructure project and noted that the subrecipient did not comply with **certification requirements promulgated in section 1511 of ARRA**.
- The subrecipient did not demonstrate that it complied with **Buy American Act provisions of ARRA promulgated in section 1605 of ARRA** which required the subrecipient to ensure that all iron, steel and manufactured goods used in the infrastructure investment project were produced in the United States

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Common Findings (cont.)

Infrastructure Investment Project Requirements: Compliance with section 14003, 1511, 1605, 1604 of ARRA (cont.)

- The subrecipient did not demonstrate that it complied with **Davis Bacon Act provisions of ARRA,** promulgated in **section 1606 of ARRA** which required the subrecipient to ensure that under the provisions of the Act, contractors or their subcontractors are required to pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on projects of a similar character.
- The subrecipient expended grant funds approved for **pre-award cost project** on a different project.

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Questions?

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