

Federal Requirements for Public School Finance

Legal Requirements

Legal requirements concerning the various federal funds are defined within the Congressional Acts creating the funds. In addition, regulations and policies are formulated by both state and federal agencies to further guide the users of the funds.

Regulations

Listing all of the legal requirements, regulations and policies regarding the various federal funds is outside the scope of this manual. However, to obtain information regarding the regulation of federal programs, reference should be made to:

- State plans for the various programs (specific program details may be found on the Department's website)
- Missouri Code of State Regulations
- Regulations of the U.S. Secretary of Education
- Legislation that established the programs
- Federal registers

General Requirements

Generally, the following requirements are inherent in federal programs:

- Each revenue source requires separate and identifiable accounting records.
- Federal Acts providing revenues contain a uniform provision that such revenues will not be commingled with other state and federal funds so as to lose their identity to a particular granting act.
- LEAs may not use revenue from federal sources to reduce or replace program effort.
- Federal funds generally require separate identification and reporting within the LEA's audit report.
- Local and state revenues used for matching federal expenditures also require separate identification and accountability.

Fund Accounting

Federal funds shall be incorporated within the fund structure identified by GAAP and by Missouri statutes. Separation from local and state transactions shall be maintained by the usage of a unique project code on all such federally related transactions. The divisions of the Department administering the programs will assist LEAs in obtaining information regarding the federal programs.

Federal Program Accounting Characteristics

With increasing amounts of federal financial support for public education, it is very important that the accounting system be designed to ensure compliance with the laws and regulations related to funding for the various purposes designated. Such an accounting system should be integral to a school district's overall accounting system rather than being maintained as "a separate set of books".

Two critical elements in federal project accounting are the beginning and ending dates of the projects. These are important for the following reasons:

- The project period for a program may or may not coincide with the state or federal fiscal year (July 1 to June 30 or October 1 to September 30, respectively). Additionally, the project period may overlap two or more state or federal fiscal years. Also, two or more projects from the same program may be operating simultaneously.
- The funding period for some federally supported programs may include a “carryover” provision in which allocations of funds that are unused during the project period may be used for approved purposes during a subsequent period.
- The application, budget and program forms must be approved by the local board of education prior to expenditure transactions by the LEA. If a subsequent audit reveals expenditures charged against the project prior to the approval date, such expenditures will be disallowed by the Department for project reimbursement. Similarly, encumbrances may not be incurred subsequent to the ending date of the specified project.

Project Budgets

The project budget is one means of ensuring that funds will be expended to accomplish specific objectives. Both the Department and the LEA view the budget as a control instrument and a benchmark against which actual expenditures can be compared each month or quarter.

Since the budget for a project plays such an important role, it is necessary that the LEA follow these steps:

- Applications and project budgets must be approved by the Department or, in some cases, by the U.S. Department of Education. Such budgets may be amended from time to time and submitted to these agencies for approval. In no event shall transactions covered by the proposed amendment be made until approval of the amendment is received by the LEA.
- Encumbrances or expenditures may not exceed line item amounts in the approved budget and/or amendments except where regulations permit and under no circumstances shall total encumbrances and expenditures exceed the total amount of the project budget.

Project Expenditures

With the exception of school-wide federal programs, the key to successful project accounting is avoiding the commingling of funds. Therefore, a source of funds code should be used on all transactions for a particular project. The following points must be observed in accounting for project expenditures:

- Federal project monies are always used for designated purposes and program funds must be used only for those purposes.
- The LEA may not make expenditures from project funds until such goods or services have been received. Evidence must be on file indicating that this requirement has been met.
- Amounts may not be expended from project funds on an arbitrary basis. Requisitions, itemized invoices, or other acceptable itemized documents that show purposes and amounts must support costs. Monies may not be transferred from project funds to general operating funds simply because the funds have been budgeted.

Project Reporting

The LEA is required to report summaries of financial transactions to the Department. These reports may be quarterly, semi-annually, or annually in accordance with project requirements. These reports often serve to substantiate payments made on an advance basis by the Department to ensure that the project is functioning and off to a good fiscal start. The final payment to the school district is based upon the Department's receipt and approval of the LEA's final report.

The district's independent auditor and the Department personnel shall have access to all information relating to a federal project.

Evidentiary material supporting the journals and ledgers must be preserved at least five years or until all audit exceptions are resolved. Such evidence should include, but is not necessarily limited to:

Salary Records:

- employment contracts
- service records supporting years of experience
- college transcripts supporting degrees and teaching fields
- individual earnings records, master file and payroll journal presented in such a manner as to identify amounts paid from specific projects
- required certificates, permits or licenses
- schedules, itineraries or job descriptions
- time and effort records

Other Fiscal Evidence:

- purchase orders and contracts
- itemized invoices, receipts and statements
- receiving reports signed by responsible district personnel
- travel claims

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